

**EXHIBIT 3 to the Declaration Of Laura W. Sawyer In Support Of Debtors' Motion For
An Order Excluding The Testimony Of Daniel Curry And Jeffrey Hasterok**

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IN THE UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
Chapter 11
CASE NO. 08-13555 (JMP)
Jointly Administered

IN RE: LEHMAN BROTHERS
HOLDINGS, INC. et al.

Debtors,

TRANSCRIPT OF
DEPOSITION OF JEFFREY HASTEROK

TRANSCRIPT of the stenographic
notes of the proceedings in the
above-entitled matter, as taken by and
before TAB PREWETT, a Registered
Professional Reporter, a Certified
Shorthand Reporter, a Certified LiveNote
Reporter, and Notary Public, held at the
Offices of JONES DAY, 222 East 41st Street,
New York, New York, on Thursday, January
16, 2014, commencing at 9:35 a.m.

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<p>1 Jeffrey Hasterok 2 been involved in that since. 3 Q So I just want to be clear on a 4 couple of things. You have never before 5 today testified under oath in any matter; 6 is that right? 7 A Correct. 8 Q Okay. Whether as an expert or 9 as a fact witness in any way? 10 A Correct. 11 Q Right. 12 A Right. I have been talked to 13 by Morgan Stanley's lawyers about Morgan 14 Stanley matters when I worked there, but 15 never in an external court case or 16 deposition or litigation or -- no, I have 17 not. 18 Q You haven't had other 19 experiences like this morning where someone 20 told you to raise your hand -- 21 A Correct. 22 Q -- and swear to tell the truth? 23 A That is correct. 24 MR. LAWRENCE: You have to wait 25 for him to finish his question before</p>	<p>1 Jeffrey Hasterok 2 document the way you have authored a 3 document in this case? 4 A I would say that I worked 5 collaboratively with the other members of 6 Mohanty. We all worked on it together. 7 There were two principals and two or three 8 junior people working there at the time. 9 So I would not declare myself 10 as the sole author of that product, 11 absolutely not. That was a joint product. 12 And then in this case it was Dan and I that 13 worked on it together. 14 Q In the New York State matter, 15 did you put your name on this report that 16 was prepared? 17 A I don't think so. 18 Q And you would agree in this 19 case you have actually signed the report 20 that was submitted? 21 A Yes, sir. 22 Q And is it your understanding 23 that the report you prepared in the New 24 York State matter, was that prepared to be 25 served as a report in a pending lawsuit, or</p>
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<p>1 Jeffrey Hasterok 2 you start answering. 3 THE WITNESS: Sorry. 4 Q And for the sake of the court 5 reporter, we might both need to slow down 6 because we both are fast talkers. So I 7 will do my best, and you should do your 8 best, too. 9 Okay. You described Mr. Curry 10 as your "partner"? 11 A Correct. 12 Q Are you, in fact, partners in 13 the legal sense, or you just are partners 14 in the sense you worked together on this 15 particular matter? 16 A The latter, we are an ad hoc 17 partnership. We both worked together at 18 Morgan Stanley. And we have not created a 19 business entity. We came together as 20 friends and former colleagues to work on 21 this matter. 22 Q Okay. On the New York State 23 matter that you testified about, you said 24 you worked as a subcontractor. Is it 25 correct to say that you did not author a</p>	<p>1 Jeffrey Hasterok 2 was it prepared for the benefit of New York 3 State to use for other purposes? 4 A To my knowledge, it was used as 5 part of the mediation process that Lehman 6 had entered into with New York State. 7 Q Now, other than the New York 8 State matter and this matter, have you 9 prepared reports of the type, valuation 10 reports of the type that you have prepared 11 in this case anywhere else? 12 A No. 13 Q And at the beginning of this 14 deposition, you described the contract 15 between Washington State Tobacco Authority 16 and Lehman as a "forward purchase 17 agreement." 18 Is that what it is? 19 A There are multiple ways to 20 describe it. I have heard -- in my former 21 life as a derivative marketer at Morgan 22 Stanley, we would use the term "forward 23 purchase agreement" or "forward delivery 24 agreement" interchangeably. 25 Q You understand, do you not,</p>

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<p>1 Jeffrey Hasterok 2 that the agreement in this case is called a 3 "reserve fund agreement," correct? 4 A I do. 5 Q And do you have a view as to 6 whether "reserve fund agreements" are the 7 same as "forward purchase agreements" or 8 "forward delivery agreements"? 9 A I would say that the "forward 10 delivery agreement" or "forward purchase 11 agreement" phrasing is a broader term. And 12 a "reserve fund agreement" is a type of 13 forward purchase agreement. 14 You can also do forward 15 purchase agreements for debt service funds 16 or construction funds or "cap I" funds. So 17 I -- the reserve fund agreement in this 18 case happens to be an FPA. 19 Q Okay. You described that your 20 relationship with Mr. Curry in this matter 21 is you collaborated on the preparation of 22 the report that was submitted here, 23 correct? 24 A Correct. 25 Q And both of you have signed the</p>	<p>1 Jeffrey Hasterok 2 certainty that I prepared this paragraph 3 myself and Dan prepared that paragraph 4 himself. 5 Certainly, I would say that I 6 did things like the spreadsheet where -- 7 that generated the termination amounts, the 8 formulas in that spreadsheet. 9 Dan, however, looked at it, 10 reviewed it, signed off on the results of 11 it. So we -- you know, we both read the -- 12 we both read the reserve fund agreements. 13 We both read through the discovery. 14 Q Now, there is a particular 15 approach that the two of you used in 16 providing an opinion as to what you believe 17 the early termination amount should be, 18 correct? 19 A Yes. 20 Q In part, you created this grid 21 off investments which resulted in various 22 numbers. And you picked a particular 23 number, and you opine that that's the 24 number, correct? 25 A Correct.</p>
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<p>1 Jeffrey Hasterok 2 report that was submitted, correct? 3 A Correct. 4 Q And we will get into the 5 details as we go through the day, but, just 6 generally, can you describe what role you 7 played in preparing this report versus the 8 role played by Mr. Curry? 9 A Sure. We both did discovery 10 review for Pacifica. We went through -- 11 and correct me if I'm wrong -- but it was 12 something like 7,000 or 8,000 entries in 13 Viewpoint -- I can't remember the exact 14 number. But Lehman's production was 15 something along those lines. 16 So we -- as part of our 17 engagement with Pacifica, we did a review 18 of those documents to look for documents 19 that were pertinent to the valuation. We 20 both went through those together, looking 21 for relevant docs. 22 We then -- once we found the 23 information we needed, we prepared the 24 document collaboratively. I would have a 25 hard time telling you with bright line</p>	<p>1 Jeffrey Hasterok 2 Q Prior to this engagement, had 3 you ever done that in any other matter? 4 A Well, as I said before, the 5 only -- the only other -- I think he's 6 opining, too -- the only other report that 7 I prepared, helped prepare was the one for 8 New York. 9 Q Putting aside the New York 10 State report, other than the report in this 11 case, have you ever done anything like that 12 before? 13 MR. LAWRENCE: You are talking 14 about calculating the termination 15 value for any type of contract? 16 MR. TAMBE: No, no. 17 MR. LAWRENCE: Okay. Then I 18 don't -- 19 MR. TAMBE: It's quite 20 specific. Go back to the question I 21 asked, please. 22 MR. LAWRENCE: I object to the 23 form because I don't think the word 24 "that" is specific at all. 25 (Reporter read back pending</p>

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<p>1 Jeffrey Hasterok</p> <p>2 question:</p> <p>3 QUESTION: "Putting aside the</p> <p>4 New York State report, other than the</p> <p>5 report in this case, have you ever</p> <p>6 done anything like that before?")</p> <p>7 MR. LAWRENCE: Object to the</p> <p>8 term "that" as vague.</p> <p>9 Q And the "that" I'm referring</p> <p>10 to, sir, is putting together a grid of</p> <p>11 possible values and selecting a particular</p> <p>12 value and saying that is the value that</p> <p>13 should be attributed.</p> <p>14 Have you ever done that</p> <p>15 exercise other than in this matter or New</p> <p>16 York State?</p> <p>17 A Right. As I sit here today, I</p> <p>18 can't recall doing something like that.</p> <p>19 Q So whose decision was it</p> <p>20 between you and Mr. Curry to use that</p> <p>21 approach?</p> <p>22 A I don't recall it being one or</p> <p>23 the other. I can't recall if it was my</p> <p>24 idea or his to lay out a grid. I don't</p> <p>25 remember.</p>	<p>1 Jeffrey Hasterok</p> <p>2 A So we were trying to come up</p> <p>3 with reasonable alternatives that they</p> <p>4 could do in reinvesting those funds. So we</p> <p>5 thought that the different line items in</p> <p>6 the matrix or grid were reasonable choices.</p> <p>7 Once we had selected a bunch of</p> <p>8 reasonable choices, the two of us had to</p> <p>9 sit down and decide, of those reasonable</p> <p>10 choices, which one did we think was the</p> <p>11 most appropriate to use.</p> <p>12 Q Okay.</p> <p>13 A And we settled on the one that</p> <p>14 generated the 37 and a half million</p> <p>15 termination.</p> <p>16 Q That process that you and</p> <p>17 Mr. Curry went through of sitting down with</p> <p>18 the grid and picking one of the lines as</p> <p>19 the one that you would choose, did you</p> <p>20 consult with anyone else about that</p> <p>21 process?</p> <p>22 A No.</p> <p>23 Q Okay. Did you review --</p> <p>24 A Outside of Pacifica.</p> <p>25 Certainly, we would have talked to Pacifica</p>
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<p>1 Jeffrey Hasterok</p> <p>2 Q So at some point in your</p> <p>3 discussions with Mr. Curry, a grid</p> <p>4 emanated, but you can't tell me whose idea</p> <p>5 it was to use that grid?</p> <p>6 A Correct.</p> <p>7 Q Okay. How about picking a</p> <p>8 particular line from that grid as the</p> <p>9 number that you were going to use? Whose</p> <p>10 idea was that?</p> <p>11 A That was both of our ideas.</p> <p>12 Q So describe for me the process</p> <p>13 where both of you came up with the idea</p> <p>14 that you would use a particular line from</p> <p>15 that grid.</p> <p>16 A Sure, we were trying to decide</p> <p>17 what are the reasonable alternatives that</p> <p>18 Washington could pursue with the funds made</p> <p>19 available to them because of Lehman's</p> <p>20 failure to deliver under the RFA -- the RFA</p> <p>21 is the "reserve fund agreement."</p> <p>22 Is it okay if I use "RFA"</p> <p>23 instead of saying "reserve fund agreement"</p> <p>24 going forward; is that okay?</p> <p>25 Q "RFA" is fine.</p>	<p>1 Jeffrey Hasterok</p> <p>2 about what we were doing and our approach</p> <p>3 as we were going through the report.</p> <p>4 Q And you don't consider Pacifica</p> <p>5 to be experts in valuation of RFAs; do you?</p> <p>6 A Unfortunately, not.</p> <p>7 THE WITNESS: I apologize if</p> <p>8 you feel now as an expert in valuing</p> <p>9 RFAs.</p> <p>10 MR. LAWRENCE: I probably know</p> <p>11 more about them than I certainly did</p> <p>12 at the beginning of this case.</p> <p>13 Q Just to be clear, you don't</p> <p>14 consider them or view them as experts in</p> <p>15 the valuation of RFAs?</p> <p>16 A That's correct.</p> <p>17 Q Or forward purchase agreements,</p> <p>18 correct?</p> <p>19 A That's correct.</p> <p>20 Q Or forward delivery agreements?</p> <p>21 A Correct.</p> <p>22 Q So other than whatever</p> <p>23 conversations you may have had with</p> <p>24 Pacifica, did you consult with anyone else</p> <p>25 in your process of going from the grid to a</p>

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<p>1 Jeffrey Hasterok 2 particular number? 3 A No. 4 Q Did you speak to Mr. Shapiro 5 about that? 6 A We were introduced to Pacifica 7 via Mr. Shapiro. Dan -- Mr. Curry has 8 known Peter Shapiro longer than I have. I 9 think the number is something like 18 or 10 20 years Dan has known Peter. 11 I have dealt -- I used to deal 12 with Peter on occasion in my role at Morgan 13 Stanley. I would say I didn't deal with 14 Peter a ton, a lot, because of -- just his 15 client base was slightly different than 16 mine. But, certainly, I would talk to 17 Peter every now and then. 18 To my knowledge, Peter knew 19 that Washington was looking for another 20 valuation expert to help prepare a report, 21 and Peter knew that Dan and I were 22 available and recommended us to Pacifica 23 and Washington. 24 But once we got to the point 25 where we were contracted by Pacifica, we</p>	<p>1 Jeffrey Hasterok 2 value? 3 A Yes. 4 Q And do you have any opinions as 5 to those valuations? 6 A We were not engaged to provide 7 an opinion about Peter's opinion if that 8 makes sense. 9 Q I thought you said it was Swap 10 Financial Group's opinion? 11 A Sorry. I apologize. You are 12 correct. Swap Financial, I tend to use 13 "Swap Financial" and "Peter Shapiro" 14 interchangeably because Peter is the 15 founder of Swap Financial, and it's a 16 relatively small firm. 17 Q So do I. 18 A Right. 19 Q I just made the correction 20 because you had made the correction 21 earlier. 22 A Yeah, no, I'm sorry. I would 23 say when I say -- when I say "Peter," I 24 really mean Swap Financial. And when I say 25 "Swap Financial," I mean Peter. I wouldn't</p>
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<p>1 Jeffrey Hasterok 2 did not talk to Peter about how we 3 were coming up with our number. We did not 4 use him as a -- as a reference or somebody 5 to bounce ideas off of as we were preparing 6 the report. 7 His role was introducing us to 8 Washington and Pacifica; and at that point, 9 we did not discuss the matter with him. 10 Q Is there a particular reason 11 why you didn't discuss the matter with him? 12 A He was not engaged under the 13 contract we have with Pacifica. 14 Q Are you aware that Mr. Shapiro 15 had done a valuation off of the same RFA 16 that you had been asked to value? 17 A I am aware, and I believe Dan 18 is, too. But I am aware that Swap 19 Financial was engaged to do a valuation. I 20 don't know. I don't know if Peter himself 21 did the actual number calculations, but his 22 firm was engaged to do it. 23 Q And have you seen the valuation 24 or valuations done by Swap Financial Group 25 of the same RFA that you were asked to</p>	<p>1 Jeffrey Hasterok 2 get into that kind of granularity if I am 3 talking about the other employees of Swap 4 Financial. 5 But we knew about and read the 6 mediation statements, the report that he 7 filed -- I believe it's in the public 8 docket, one of the supporting dockets that 9 Peter -- I keep doing it -- one of the 10 supporting dockets that Swap Financial 11 filed included his method, their method. 12 But we tried to come at the 13 issue from a clean slate. 14 Q So as you sit here, have you 15 formed any opinions about the Swap 16 Financial Group analysis that you have 17 reviewed? 18 A I would say that one issue we 19 had is that we think that the Swap 20 Financial number -- one of the underlying 21 assumptions in that method relies on 22 using -- the first step is using the swap 23 curve, the LIBOR swap curve, US dollar 24 LIBOR swap curve, as the starting point for 25 the valuation.</p>

5 (Pages 17 to 20)

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<p>1 Jeffrey Hasterok</p> <p>2 And one of the key elements</p> <p>3 that Dan and I are putting forth in our</p> <p>4 report is that we don't think that that is</p> <p>5 the most appropriate way to do it because</p> <p>6 the client Washington TSA cannot actually</p> <p>7 enter into that trade.</p> <p>8 They cannot transact in a</p> <p>9 long-dated interest rate swap that mimics</p> <p>10 the economics they had under the RFA.</p> <p>11 And so that basic building</p> <p>12 block of that approach -- because we didn't</p> <p>13 think that that was the most appropriate</p> <p>14 way to do it, we didn't really go down that</p> <p>15 road in calculating a number using that</p> <p>16 method.</p> <p>17 Q Okay. Other than Swap</p> <p>18 Financial's use of a forward swap, can you</p> <p>19 remember -- do you have any other opinions</p> <p>20 about the Swap Financial analysis that you</p> <p>21 have reviewed?</p> <p>22 A I would say that we prepared</p> <p>23 our valuation estimate to the best of our</p> <p>24 ability and used the models that we thought</p> <p>25 were most appropriate in this case.</p>	<p>1 Jeffrey Hasterok</p> <p>2 Q Going back to Swap Financial</p> <p>3 Group's use of the forward swap curve,</p> <p>4 based on your report, would it be fair to</p> <p>5 conclude that you believe it is wrong to</p> <p>6 use the forward swap curve to calculate</p> <p>7 Washington TSA's termination amount?</p> <p>8 MR. LAWRENCE: Object to the</p> <p>9 form. Go ahead and answer it.</p> <p>10 A Okay.</p> <p>11 MR. LAWRENCE: If you can.</p> <p>12 A Sure, I would say -- I would</p> <p>13 say that the demise of Lehman Brothers and</p> <p>14 the bankruptcy of Lehman Brothers created</p> <p>15 an unfortunate scenario where the market</p> <p>16 for these products essentially evaporated.</p> <p>17 And when I say "these</p> <p>18 products," I mean replacements for purchase</p> <p>19 agreements, forward delivery agreements,</p> <p>20 RFAs. Exact replacements for this product</p> <p>21 that probably existed back in the early</p> <p>22 2000s, that market essentially ceased to</p> <p>23 exist.</p> <p>24 And, therefore, it became more</p> <p>25 difficult to calculate termination amounts</p>
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<p>1 Jeffrey Hasterok</p> <p>2 Q My question is a little</p> <p>3 different and a little bit more specific</p> <p>4 than that.</p> <p>5 Other than Swap Financial's use</p> <p>6 of a forward swap curve, do you have any</p> <p>7 other opinions about the Swap Financial</p> <p>8 analysis that you have reviewed?</p> <p>9 A Not as I sit here today.</p> <p>10 Q Are you currently working on</p> <p>11 any analysis off the Swap Financial</p> <p>12 methodology?</p> <p>13 A I am not.</p> <p>14 Q Has Mr. Shapiro expressed to</p> <p>15 you any views that he has about your</p> <p>16 methodology?</p> <p>17 A No.</p> <p>18 Q As you did your analysis and</p> <p>19 did your work, did you share any of your</p> <p>20 work product with Mr. Shapiro either orally</p> <p>21 or in writing in any way?</p> <p>22 A No. Not to my knowledge.</p> <p>23 Q Do you know whether Mr. Shapiro</p> <p>24 has seen your expert report?</p> <p>25 A I do not know.</p>	<p>1 Jeffrey Hasterok</p> <p>2 given the collapse of the market.</p> <p>3 I would say that there are</p> <p>4 multiple ways to come up with a number in</p> <p>5 valuating -- evaluating this financial</p> <p>6 contract. And we viewed the ones that we</p> <p>7 put in our report as the most reasonable --</p> <p>8 using the forward swap curve is a way of</p> <p>9 evaluating the price.</p> <p>10 But given that we didn't select</p> <p>11 it as our method, we would -- I would -- I</p> <p>12 don't think it's unfair to say we believe</p> <p>13 that our method -- in our opinion as expert</p> <p>14 witnesses, believe that our method is more</p> <p>15 appropriate.</p> <p>16 Q Are you expressing an opinion</p> <p>17 in this case that the demise of Lehman</p> <p>18 Brothers was responsible for the market for</p> <p>19 the various forward purchase agreements</p> <p>20 basically being destroyed, that Lehman was</p> <p>21 the source of that?</p> <p>22 And just to be clear, is that</p> <p>23 an opinion you are expressing in this case?</p> <p>24 A Sure. I would say that --</p> <p>25 MR. LAWRENCE: I am going to</p>

6 (Pages 21 to 24)

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<p>1 Jeffrey Hasterok 2 object to the form of the question on 3 that. 4 MR. TAMBE: You can object. 5 Q Go ahead. 6 A I would say that the demise of 7 Lehman Brothers was part of it. There were 8 other factors such as the collapse of the 9 housing market. The -- if you read in the 10 financial press, I guess they call it the 11 "financial crisis" -- but over-leverage in 12 the financial system, the bankruptcy of 13 Lehman Brothers. 14 Is the demise of Lehman 15 Brothers, the bankruptcy of Lehman 16 Brothers, the single factor that caused the 17 FPA, FDA, RFA markets to vanish? No, it's 18 not a single factor. It's an important 19 one, but it's not the single factor. 20 Q Did you do any kind of analysis 21 to determine what were the factors that 22 resulted in the demise of the FDA -- FDA, 23 RFA markets? 24 A If I recall, we spoke to it in 25 the report about why we believed there were</p>	<p>1 Jeffrey Hasterok 2 Journal, they will say things like 3 "financial regulation reform." 4 But they rarely actually quote 5 a specific line item from Dodd Frank; but, 6 yes, I agree with you. 7 Q So putting aside -- again, we 8 will go back to your opinions about the 9 demise of the FPA, RFA markets. I believe 10 you said that the use of the forward curve 11 remains a way in which forward contracts 12 can be valued; is that fair? 13 A Yes. 14 Q Okay. It's just -- in your 15 opinion, your way is better than using a 16 forward curve; is that correct? 17 A Yes. 18 Q Is it fair to say that, in all 19 of your years at Morgan Stanley, you 20 routinely used forward curves of every 21 shape and size to value Morgan Stanley's 22 positions? 23 A We absolutely did. 24 Q And so did Mr. Curry, correct? 25 A Yes, he did. Yes, he did. He</p>
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<p>1 Jeffrey Hasterok 2 no replacement providers willing to take on 3 a replacement RFA, which included things 4 like banks -- sorry -- not just banks, but 5 former financial providers that used to do 6 this product believed that it was less 7 attractive as a business line. 8 Capital charges, credit 9 charges, funding charges, things like that 10 became more onerous. And it looks -- it 11 appears like the provider universe made 12 business decisions that said: 13 "This business is not as 14 attractive as it needs to be, and therefore 15 we are not going to do it anymore." 16 Q Would you also agree with me 17 that there are regulatory changes that 18 might make this business less attractive 19 from the bank's perspective than it was 20 pre-financial crisis? 21 A Yes, I would agree with that. 22 I apologize. I can't quote you -- I can't 23 quote you the line items from Dodd Frank 24 that would support that thesis. But, in 25 general, if you read the Wall Street</p>	<p>1 Jeffrey Hasterok 2 and I had absolutely different roles. We 3 sat on the same desk. We sat a few feet 4 away from each other, but we had slightly 5 different roles. 6 Q At any time -- how long were 7 you at Morgan Stanley? 8 A Let's see, 11 years. 9 Q 11 years. In your 11 years at 10 Morgan Stanley, did you ever mark your 11 positions at Morgan Stanley or value the 12 positions of Morgan Stanley on a basis 13 where you rejected the use of the forward 14 curve? 15 A I wasn't a trader, so I didn't 16 mark any positions. That's not a role of a 17 marketer. I would calculate termination 18 values and new trade values and work with 19 the traders to put risk on or off of the 20 books. But to be precise about what my 21 role was, I wasn't a trader. 22 But we absolutely used swap -- 23 LIBOR swap curves, credit curves when 24 pricing new trades and the termination of 25 old trades.</p>

7 (Pages 25 to 28)

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<p>1 Jeffrey Hasterok</p> <p>2 Q And in those exercises that you</p> <p>3 did in your 11 years at Morgan Stanley, did</p> <p>4 you ever say to the customer or a trader or</p> <p>5 to anyone that the use of the forward curve</p> <p>6 was not a proper way of valuing a</p> <p>7 particular position?</p> <p>8 A Not to my knowledge.</p> <p>9 Q To your knowledge, has</p> <p>10 Mr. Curry ever written or spoken to the</p> <p>11 effect that the use of the forward curve is</p> <p>12 inappropriate to value forward delivery</p> <p>13 agreements other than this report in this</p> <p>14 case?</p> <p>15 A I doubt it, but you can ask him</p> <p>16 yourself tomorrow.</p> <p>17 Q Sure will.</p> <p>18 As far as you know, he never</p> <p>19 expressed that view other than in this</p> <p>20 case?</p> <p>21 A Correct.</p> <p>22 Q Okay. Why did you use the</p> <p>23 forward curve to do the valuations that you</p> <p>24 did when you were at Morgan Stanley?</p> <p>25 A Because, as a dealer in the</p>	<p>1 Jeffrey Hasterok</p> <p>2 lower price and selling it at a higher</p> <p>3 price, if that makes sense. That's one way</p> <p>4 of running a business, making money.</p> <p>5 When we priced forward</p> <p>6 purchase, forward delivery RFA type trades,</p> <p>7 we absolutely used the swap curve, the</p> <p>8 LIBOR -- in our case, US dollar only, I</p> <p>9 don't recall ever looking at a foreign</p> <p>10 concern denominated trade.</p> <p>11 We used the US dollar LIBOR</p> <p>12 swap curve as the starting point for</p> <p>13 valuing --</p> <p>14 (There was a discussion off the</p> <p>15 record.)</p> <p>16 A I'm sorry. I apologize. I'm</p> <p>17 sorry I went too fast.</p> <p>18 We used the US dollar LIBOR,</p> <p>19 L-I-B-O-R, LIBOR swap curve.</p> <p>20 Sorry if I -- I apologize if I</p> <p>21 am going too fast; kick me -- kick me if I</p> <p>22 am going too fast.</p> <p>23 The LIBOR swap curve as the</p> <p>24 basis and the starting point of these</p> <p>25 trades.</p>
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<p>1 Jeffrey Hasterok</p> <p>2 relevant markets we are talking about, and</p> <p>3 in this case, forward purchase agreements,</p> <p>4 forward delivery agreements with</p> <p>5 municipal or municipal type clients -- TSA</p> <p>6 is a bit of an anomaly, in that, although</p> <p>7 it's a public entity, the issue -- the</p> <p>8 bonds -- and entered into the RFA -- the</p> <p>9 transaction itself is a little bit more</p> <p>10 similar to an asset-backed transaction. So</p> <p>11 it kind of lives in both worlds.</p> <p>12 As a dealer that is a going</p> <p>13 concern as Morgan Stanley is and was,</p> <p>14 generally, we would price things on what's</p> <p>15 called our side of the market. Okay. And</p> <p>16 that's shorthand for another way of kind of</p> <p>17 saying "bid/ask."</p> <p>18 Okay. And the way to</p> <p>19 understand that is, if you go to a dealer</p> <p>20 and you want to buy a share of Microsoft</p> <p>21 stock, the dealer is going to say:</p> <p>22 "I will sell it to you at \$50,</p> <p>23 but I, the dealer, don't want to buy it at</p> <p>24 \$50. I want to buy it at \$49."</p> <p>25 So the dealer is buying it at a</p>	<p>1 Jeffrey Hasterok</p> <p>2 Now, correct me if I'm wrong,</p> <p>3 but you asked why. Why did we use that?</p> <p>4 Is that -- is that correct? You want why</p> <p>5 did we use it. Why are we using LIBOR?</p> <p>6 Q Correct.</p> <p>7 A The LIBOR market, the LIBOR</p> <p>8 swap market is one of the most liquid and</p> <p>9 deep interest rate hedging tools available.</p> <p>10 Okay. So one of the risks you</p> <p>11 take on as a dealer in these products in</p> <p>12 delivering and -- sorry -- in providing</p> <p>13 FPAs and RFAs is you are taking the risk of</p> <p>14 interest rate risk.</p> <p>15 You are taking the risk that</p> <p>16 you are paying a given fixed rate of</p> <p>17 return. And then you are taking the risk</p> <p>18 that, over time, rates change, and the rate</p> <p>19 at which you are paying on the RFA is no</p> <p>20 longer a market rate anymore. It's too</p> <p>21 high or too low.</p> <p>22 And, generally speaking,</p> <p>23 providers like Morgan Stanley will try to</p> <p>24 hedge out of a bunch of those risks.</p> <p>25 One way they can do that is,</p>

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<p>1 Jeffrey Hasterok 2 for example, if you're paying a fixed rate 3 on an RFA, you might go into the swap 4 market and receive fixed from the swap 5 market. To help offset the fact that you 6 are paying a fixed rate on the RFA, you 7 will receive a fixed rate in the swap 8 market. 9 So because you have a known 10 input, your hedge costs -- your LIBOR swap 11 market is one of your inputs, your hedge 12 costs -- you can then use that as the basis 13 for providing prices for the RFAs. 14 The major difference why that 15 makes sense for a dealer is, again, the 16 dealer can execute the trade. The dealer 17 can do it. He can -- the dealer can go 18 into the market and actually pay or receive 19 in the swap market in a very liquid 20 fashion. It's easy to get in and out of. 21 And when you are expressing a 22 price as a dealer, you are showing a price 23 that makes sense to you as the dealer. 24 You are going to show a price 25 that you believe is a profitable level.</p>	<p>1 Jeffrey Hasterok 2 So they have to essentially 3 accept our price. And if you don't -- if 4 they don't like it -- we can go through the 5 quote process, and a lot of docs have 6 delineated how that works. 7 But in this case, in the case 8 of TSA, we didn't feel using that 9 methodology -- that exact same methodology 10 that I would have used if I was sitting in 11 my seat at Morgan Stanley, was as 12 appropriate because it was on TSA's side of 13 the market, in our opinion, not the 14 dealer's side of the market. 15 And, therefore, it called for a 16 different methodology of pricing the 17 termination model. 18 Q If I understood the last part 19 of what you were saying, is it fair to say 20 that, if you were valuing this contract, 21 not from the TSA's perspective, but from 22 the dealer's perspective, you would have 23 used a different methodology? 24 A Probably. Sure. 25 Q You would have more likely used</p>
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<p>1 Jeffrey Hasterok 2 You are not going to pay a rate of interest 3 that loses money. Why would you do that? 4 If you do that continually, you will be out 5 of business. 6 So you are doing your best to 7 try to show a price that induces the client 8 to enter into the transaction, but at the 9 same time is profitable for you. 10 So that is a way of saying it's 11 on the dealer side of the market. It's a 12 level at which it makes sense to the 13 dealer, is profitable to the dealer, both 14 entering into new transactions and exiting 15 transactions. 16 We certainly would have people 17 call and say for whatever reason: 18 "We need to terminate such and 19 such trade. What's your price?" 20 And we would show a price that, 21 again, which makes sense to the dealer 22 because it's our side of the market. The 23 other client, the other -- the client 24 asking for a termination price is the 25 burdened party, if you will.</p>	<p>1 Jeffrey Hasterok 2 your forward curve methodology? 3 A Well, let -- let's assume that 4 TSA was facing Morgan Stanley, not Lehman 5 Brothers. And Morgan Stanley is still -- 6 let's remove Morgan Stanley. Just say a 7 dealer, a going-concern dealer that's still 8 in the market that has the trade on that 9 has not defaulted, that has not -- there 10 has not been a termination of some kind 11 that the dealer has generated. 12 And if TSA just contacted the 13 dealer and said, "I want to terminate this 14 trade," then, yes, they would probably use 15 the swap curve as a starting point for 16 calculating a termination amount, 17 absolutely. 18 But, again, in that case, 19 that's a different set of facts than what 20 we have here. In that hypothetical 21 scenario, that's TSA coming to the dealer 22 and asking for a termination; so, 23 therefore, the termination price is going 24 to be reflective of the dealer's side of 25 the market, not TSA's side of the market.</p>

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<p>1 Jeffrey Hasterok</p> <p>2 Q Okay. I want to go back to the</p> <p>3 question I had asked a couple of answers</p> <p>4 ago about why you used the forward curve</p> <p>5 when you were at Morgan Stanley. And you</p> <p>6 provided an answer talking about the dealer</p> <p>7 side of the market and the use of the swap</p> <p>8 curve, et cetera.</p> <p>9 Putting aside the municipal</p> <p>10 desk, you are aware, are you not, that</p> <p>11 Morgan Stanley and other dealers use</p> <p>12 forward curves, not only with</p> <p>13 municipalities, but when they are dealing</p> <p>14 with all sorts of financial problems?</p> <p>15 A Absolutely.</p> <p>16 Q In fact, in any long-dated</p> <p>17 financial product, whether it be a swap or</p> <p>18 some other type of long-dated contract, the</p> <p>19 use of the forward curve is widely</p> <p>20 accepted, correct?</p> <p>21 A Yes, I agree with that.</p> <p>22 Q It's the norm?</p> <p>23 A Yes.</p> <p>24 Q And it's not just a valuation</p> <p>25 exercise. Banks are making investment</p>	<p>1 Jeffrey Hasterok</p> <p>2 case, typically, three-month LIBOR.</p> <p>3 You can go to financial news</p> <p>4 services like the Wall Street Journal or</p> <p>5 Bloomberg, and you can -- or</p> <p>6 Thompson-Reuters, things like that, and you</p> <p>7 can see quotes for paying or receiving a</p> <p>8 fixed rate for one year, two years, five,</p> <p>9 ten -- you know, I think the typical quote</p> <p>10 goes out every year out to about 30 years.</p> <p>11 And it means that, if you are a</p> <p>12 dealer or a large sophisticated financial</p> <p>13 institution, for example, a PimCo, a Black</p> <p>14 Rock, an Allstate, something like that,</p> <p>15 that has existing ISDA docs in place -- and</p> <p>16 "ISDA" is spelled I-S-D-A -- that's just an</p> <p>17 agreement between the -- between dealers or</p> <p>18 agreement between dealers and clients that</p> <p>19 describes how to -- how to enter into and</p> <p>20 how to book and how to value and terminate</p> <p>21 derivative transactions.</p> <p>22 Assuming you are a dealer</p> <p>23 and/or a sophisticated financial</p> <p>24 institution, an eligible contract</p> <p>25 participant, you can pay or receive a fixed</p>
Page 38	Page 40
<p>1 Jeffrey Hasterok</p> <p>2 decisions and trading decisions based on</p> <p>3 the forward curves, correct?</p> <p>4 A Sure.</p> <p>5 Q In fact, the P&L of your desk</p> <p>6 depended on how well you understood and</p> <p>7 used forward curves in pricing</p> <p>8 transactions, correct?</p> <p>9 A In part. Yes.</p> <p>10 Q Now, one other thing you said</p> <p>11 was you described the LIBOR swap curve --</p> <p>12 correct me if I get this wrong -- I think</p> <p>13 you used the words, "most liquid and deep."</p> <p>14 And I guess there you were</p> <p>15 describing the market for LIBOR</p> <p>16 transactions and LIBOR swaps?</p> <p>17 A Yeah, let's get -- it's a</p> <p>18 technicality, just so we are on the same</p> <p>19 page.</p> <p>20 When I say the "vanilla LIBOR</p> <p>21 swap market" or the "LIBOR swap market," I</p> <p>22 am referring to one party, one party to a</p> <p>23 derivative contract paying or receiving a</p> <p>24 fixed rate and the other party paying or</p> <p>25 receiving a floating rate, and, in this</p>	<p>1 Jeffrey Hasterok</p> <p>2 rate almost anywhere on that curve in large</p> <p>3 amounts almost 24 hours a day.</p> <p>4 And so that liquidity is</p> <p>5 important. As somebody in a dealer seat</p> <p>6 providing things like RFAs, you know that</p> <p>7 almost at any given moment you can hedge</p> <p>8 out that part of your book of risks. You</p> <p>9 can -- you feel extremely confident that,</p> <p>10 I, sitting in a dealer's seat, can say:</p> <p>11 "I can contact my LIBOR swap</p> <p>12 desk and pay or receive fixed anywhere up</p> <p>13 and down the interest rate curve in almost</p> <p>14 any size."</p> <p>15 And that's not true in many,</p> <p>16 many markets.</p> <p>17 Q All right. So when you talk</p> <p>18 about the liquidity and depth, are there</p> <p>19 particular measures of liquidity and depth</p> <p>20 that you believe are relevant?</p> <p>21 A Yes, there are -- there are</p> <p>22 ways -- and I am a little bit out of my --</p> <p>23 out of my shoes a little bit here because I</p> <p>24 am not an equity guy.</p> <p>25 But I believe there are ways of</p>

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<p>1 Jeffrey Hasterok</p> <p>2 calculating liquidity and equities. For</p> <p>3 example, you can show daily average</p> <p>4 transaction volume versus the number of</p> <p>5 shares that are outstanding, number of</p> <p>6 transactions, size of the average</p> <p>7 transaction.</p> <p>8 There are -- there are various</p> <p>9 ways you measure liquidity. I don't know</p> <p>10 of a bright line test way of measuring</p> <p>11 liquidity.</p> <p>12 Q Do you believe yourself to be</p> <p>13 an expert in defining liquidity and depth</p> <p>14 of markets for financial products?</p> <p>15 A No, I wouldn't describe myself</p> <p>16 as that kind of expert.</p> <p>17 Q Have you conducted any kind of</p> <p>18 analysis or study of the liquidity and</p> <p>19 depth of the financial markets for</p> <p>20 government debt instruments?</p> <p>21 A No.</p> <p>22 Q Do you have an opinion as to</p> <p>23 the liquidity or depth of the market for</p> <p>24 United States Treasury obligations?</p> <p>25 A Yes, I believe that US</p>	<p>1 Jeffrey Hasterok</p> <p>2 things like repurchase transactions, in</p> <p>3 addition to forward purchase agreements and</p> <p>4 things like that.</p> <p>5 So, certainly, one of the</p> <p>6 things we thought about and looked at were</p> <p>7 the obligations of issuers like Fannie Mae,</p> <p>8 Freddie Mac, Ginnie Mae. Fannie and</p> <p>9 Freddie went into conservatorship, in --</p> <p>10 boy, I don't remember -- '09, something</p> <p>11 like that. I apologize. I don't remember</p> <p>12 off the top of my head.</p> <p>13 But I don't recall looking</p> <p>14 through the legal documentation around the</p> <p>15 conservatorship process, whether you can</p> <p>16 now consider the debt of Fannie and Freddie</p> <p>17 an obligation of the United States. I</p> <p>18 apologize. I just don't know.</p> <p>19 But to my knowledge,</p> <p>20 mortgage-backed obligations and debt</p> <p>21 obligations of Fannie and Freddie are --</p> <p>22 they are referred to as "agencies." But I</p> <p>23 think you get into a definitional issue of</p> <p>24 what's an "agency."</p> <p>25 Does that mean you are a direct</p>
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<p>1 Jeffrey Hasterok</p> <p>2 Treasuries are also an extremely deep and</p> <p>3 liquid interest rate market.</p> <p>4 Q Do you have an opinion as to</p> <p>5 the liquidity or depth of the market for</p> <p>6 United States obligations?</p> <p>7 MR. LAWRENCE: Object to the</p> <p>8 form.</p> <p>9 A I'm sorry. I think I don't</p> <p>10 understand "obligations." Social security,</p> <p>11 I guess, is an obligation of the</p> <p>12 United States.</p> <p>13 Q You are familiar with the</p> <p>14 phrase "agency securities," correct?</p> <p>15 A Yes.</p> <p>16 Q And what do you understand</p> <p>17 "agency securities" to be?</p> <p>18 A That's a good question. You</p> <p>19 are going to get different answers</p> <p>20 depending on who you ask.</p> <p>21 Q I am asking you. You are the</p> <p>22 one under oath.</p> <p>23 A I understand. I understand.</p> <p>24 One of the -- one of the roles</p> <p>25 I played at Morgan Stanley was working on</p>	<p>1 Jeffrey Hasterok</p> <p>2 arm of the United States Government and</p> <p>3 your debt obligations and guarantees are</p> <p>4 guaranteed by the United States Government?</p> <p>5 I mean, that's one way you could define an</p> <p>6 "agency."</p> <p>7 But in a -- in an offhand way</p> <p>8 of describing "agencies," yes, Fannie and</p> <p>9 Freddie and Ginnie are usually viewed as</p> <p>10 the "agencies." There are certainly a</p> <p>11 bunch of other agencies. But those three,</p> <p>12 to my knowledge, are the ones that usually</p> <p>13 see their debt referred to as for tradeable</p> <p>14 instruments.</p> <p>15 Q And with respect to those</p> <p>16 tradeable instruments, the debt securities</p> <p>17 issued by Fannie and Freddie and Ginnie, do</p> <p>18 you have an opinion as to the liquidity or</p> <p>19 depth of the markets for those securities?</p> <p>20 A To my knowledge, they were</p> <p>21 viewed as relatively deep, relatively</p> <p>22 liquid, but viewed as a step below depth</p> <p>23 and liquidity compared to Treasuries,</p> <p>24 United States Treasuries.</p> <p>25 Q Are you generally familiar with</p>

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<p>1 Jeffrey Hasterok</p> <p>2 the use of the LIBOR swap curve being used</p> <p>3 as a basis to price forward curves for</p> <p>4 other securities as a spread to LIBOR, for</p> <p>5 example?</p> <p>6 A Could you rephrase that? I am</p> <p>7 struggling with how to answer that.</p> <p>8 Q So we will take it in pieces.</p> <p>9 A Okay.</p> <p>10 Q Does the phrase "spread to</p> <p>11 LIBOR" have any meaning to you?</p> <p>12 A Yes.</p> <p>13 Q What does it mean to you?</p> <p>14 A It means a couple -- it could</p> <p>15 mean a couple of things.</p> <p>16 When I hear "spread to LIBOR,"</p> <p>17 that could mean something like a particular</p> <p>18 tradeable instrument, maybe a corporate</p> <p>19 bond, for example, maybe a 5- or a 10-year</p> <p>20 corporate bond, is trading at a positive or</p> <p>21 negative spread to the LIBOR swap curve.</p> <p>22 So if a corporate bond is</p> <p>23 trading at 5 percent, and the same maturity</p> <p>24 swap is trading at 4 percent, you might say</p> <p>25 that that bond is trading at LIBOR plus</p>	<p>1 Jeffrey Hasterok</p> <p>2 are an input into the formula. For</p> <p>3 example, in calculating credit default</p> <p>4 swaps, I believe that LIBOR is one of the</p> <p>5 inputs.</p> <p>6 Q And when you use the LIBOR</p> <p>7 curve in that manner, you are using a view</p> <p>8 of a historical relationship between the</p> <p>9 LIBOR rate and this other rate or the</p> <p>10 expected future relationship between the</p> <p>11 LIBOR rate and this future rate, correct?</p> <p>12 A Let's be -- let's be more</p> <p>13 specific.</p> <p>14 So when you are using LIBOR</p> <p>15 swap rates, which is different than LIBOR</p> <p>16 itself, they are not the same thing. They</p> <p>17 are related, but they are not the same</p> <p>18 thing, one-month LIBOR, three-month LIBOR,</p> <p>19 six-month LIBOR, the actual reset itself,</p> <p>20 which you get from the British Bankers</p> <p>21 Association -- they reset it every business</p> <p>22 day -- that input, that number, that -- the</p> <p>23 LIBOR reset is a different number than the</p> <p>24 LIBOR swap curve. Okay. They are separate</p> <p>25 entities.</p>
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<p>1 Jeffrey Hasterok</p> <p>2 100.</p> <p>3 Okay. So it could mean spread</p> <p>4 to LIBOR in that sense. It could mean a</p> <p>5 basis swap market, which does exist. And</p> <p>6 there are things like -- you can enter into</p> <p>7 transactions in the derivative world where</p> <p>8 you pay or receive floating LIBOR,</p> <p>9 one-month LIBOR, three-month LIBOR,</p> <p>10 six-month, whatever.</p> <p>11 You pay or receive some version</p> <p>12 of floating LIBOR, and then you pay or</p> <p>13 receive some other floating rate of</p> <p>14 interest -- could be T bills, could be</p> <p>15 prime, could be commercial paper, could be</p> <p>16 other LIBOR.</p> <p>17 You can do a basis swap between</p> <p>18 one-month LIBOR and three-month LIBOR, for</p> <p>19 example.</p> <p>20 So "spread to LIBOR" could mean</p> <p>21 something like that, too, a basis swap.</p> <p>22 Q And are you familiar with the</p> <p>23 use of a LIBOR swap curve for pricing or</p> <p>24 valuing other forward curves?</p> <p>25 A Yes, I believe that LIBOR swaps</p>	<p>1 Jeffrey Hasterok</p> <p>2 The LIBOR swap curve is</p> <p>3 referenced directly because dealers will</p> <p>4 quote LIBOR swap rates up and down the</p> <p>5 curve. A dealer generally doesn't quote</p> <p>6 you -- "I'll make a market in one-month</p> <p>7 LIBOR." They don't do that.</p> <p>8 They will make a quote. They</p> <p>9 will make a market in ten-year LIBOR swaps.</p> <p>10 And if you enter into that transaction with</p> <p>11 a dealer, you are going to pay or receive a</p> <p>12 fixed rate, and you are going to pay or</p> <p>13 receive a floating rate of interest that</p> <p>14 is probably three-month LIBOR.</p> <p>15 But there is a differentiation</p> <p>16 that sometimes people miss, that the actual</p> <p>17 reset itself that the British Bankers</p> <p>18 Association quotes is not the same thing as</p> <p>19 the swap curve that the dealers quote.</p> <p>20 Does that make sense?</p> <p>21 Q I'm not sure if it does. I'm</p> <p>22 not sure if it answers my question.</p> <p>23 A Okay.</p> <p>24 Q Let's go back to the question I</p> <p>25 had asked. If you don't understand my</p>

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<p>1 Jeffrey Hasterok 2 question, tell me that. 3 A I'm sorry if I am not getting 4 it. I'm sorry. 5 (Reporter read back pending 6 question: 7 QUESTION: "And when you use 8 the LIBOR curve in that manner, you 9 are using a view of a historical 10 relationship between the LIBOR rate 11 and this other rate or the expected 12 future relationship between the LIBOR 13 rate and this future rate, correct?") 14 A I would say, when you use the 15 LIBOR swap curve as an input, you are -- 16 you are using the current market's view of 17 where they are willing to buy or -- 18 sorry -- where they are willing to pay or 19 receive fixed or floating, depending on 20 which way they are going, in the LIBOR swap 21 market. 22 The historical path of 23 three-month LIBOR, one-month LIBOR, and the 24 historical path of the swap rates 25 themselves -- which, again, are</p>	<p>1 Jeffrey Hasterok 2 financial instrument, any NPV, IRR 3 calculation you want -- you can use it as a 4 comparison basis point if you want. 5 Q Just to be clear, not only can 6 you use it; you are aware that traders and 7 marketers in the financial industry use the 8 LIBOR swap curve in those matters? 9 A Absolutely, they do, because 10 they are part of a dealer and/or a 11 sophisticated financial institution that is 12 and continues to be a going concern, which 13 is an underlying assumption that is 14 critical to why you would use those 15 markets. 16 Q And just because Lehman ceased 17 to exist after September of 2008, the 18 financial markets didn't cease to exist. 19 Dealers continued to exist and conduct 20 business and conduct transactions in LIBOR 21 and Treasuries and agencies, correct? 22 A That is correct. 23 MR. TAMBE: Let's go ahead and 24 mark Lehman 30, please. 25 MR. LAWRENCE: Is this a good</p>
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<p>1 Jeffrey Hasterok 2 different -- you can show time series data 3 and the path of how ten-year swap rates 4 have moved over however many years. You 5 can show a path of where one- and 6 three-month LIBOR has gone, for example. 7 And, certainly, the dealers 8 that quote those markets take into account 9 what the past has done. They also 10 certainly take into account their future 11 expectations of things like monetary 12 policy, inflation expectations, the health 13 of the Treasury market. There are multiple 14 inputs into how they come up with a price. 15 So, yes, the LIBOR swap market 16 rates -- that number is a reflection of 17 both past history and future expectations. 18 And then once you get to that point, you 19 can then compare that market, the LIBOR 20 swap market, to whatever other financial 21 instrument you might want to compare it to. 22 So you might want to compare it 23 to a corporate bond, a Treasury, building 24 a -- building a stadium. I mean, you can 25 view it any -- any investment, any</p>	<p>1 Jeffrey Hasterok 2 time to take a short break? 3 MR. TAMBE: Yes, we can take a 4 short break before we get into the 5 report. That's fine. 6 (A break is taken.) 7 (Exhibit No. Lehman 30, 8 12/16/13 Expert Valuation Report, is 9 marked by the reporter for 10 identification.) 11 Q Sir, I have placed before you a 12 document marked Lehman Exhibit 30. Do you 13 recognize this as the valuation report that 14 you have prepared with Mr. Curry? 15 A This looks to be it. I am 16 assuming it's the same document I -- Dan 17 and I forwarded to Pacifica. So assuming 18 it's that same document, then, yes, it 19 looks familiar. 20 Q And yours has -- it's a color 21 copy, right? 22 A Yes. Yes. 23 Q That may be relevant for one or 24 two pages of this document, but I want to 25 make sure you have a color copy.</p>

13 (Pages 49 to 52)

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<p>1 Jeffrey Hasterok</p> <p>2 A Right. Some of the charts are</p> <p>3 in color, and that's relevant.</p> <p>4 Q I believe this has a date on</p> <p>5 the first page of December 16, 2013. Do</p> <p>6 you see that?</p> <p>7 A Correct.</p> <p>8 Q Have you made any edits or</p> <p>9 revisions to this report since the date of</p> <p>10 December 16, 2013?</p> <p>11 A We have not.</p> <p>12 Q Any corrections?</p> <p>13 A Not to my knowledge.</p> <p>14 Q We are going to ask you some</p> <p>15 questions about this report and maybe look</p> <p>16 at some of the documents along the way.</p> <p>17 But let's start with your retention by</p> <p>18 Pacifica Group.</p> <p>19 When were you first engaged by</p> <p>20 Pacifica Group?</p> <p>21 A June, maybe.</p> <p>22 MR. LAWRENCE: I can't answer</p> <p>23 the question. Only you can answer the</p> <p>24 questions.</p> <p>25 A I don't remember.</p>	<p>1 Jeffrey Hasterok</p> <p>2 A I just want to make sure I</p> <p>3 don't screw up an exhibit. Okay.</p> <p>4 September. Okay.</p> <p>5 Q So looking at Exhibit 31,</p> <p>6 that's a consulting agreement that you</p> <p>7 signed with Pacifica, correct?</p> <p>8 A Yes.</p> <p>9 Q All right. And that has a</p> <p>10 date -- I believe you looked at</p> <p>11 page three -- of the 23rd of September; is</p> <p>12 that correct?</p> <p>13 A Okay. So September is when</p> <p>14 we -- I apologize. I didn't</p> <p>15 exactly remember when we were engaged, when</p> <p>16 we started talking about it.</p> <p>17 Q Let's get to that, right.</p> <p>18 A Okay.</p> <p>19 Q Is it your recollection that</p> <p>20 you had any substantive discussions about</p> <p>21 this matter before the date on Exhibit 31,</p> <p>22 before September 23, 2013?</p> <p>23 MR. LAWRENCE: Object to the</p> <p>24 form.</p> <p>25 A Before we signed this, Pacifica</p>
Page 54	Page 56
<p>1 Jeffrey Hasterok</p> <p>2 I am happy to go home and look</p> <p>3 through my E-Mails, but summer. I</p> <p>4 apologize. I don't have the exact date,</p> <p>5 something in the summer.</p> <p>6 Q Can you get four and five,</p> <p>7 please.</p> <p>8 (There was a discussion off the</p> <p>9 record.)</p> <p>10 A I mean our -- we signed an</p> <p>11 engagement letter with Pacifica, which</p> <p>12 would be dated.</p> <p>13 Q So that's what we are going to</p> <p>14 go to next.</p> <p>15 (Exhibit No. Lehman 31,</p> <p>16 Pacifica and Expert Engagement Letter,</p> <p>17 is marked by the reporter for</p> <p>18 identification.)</p> <p>19 A I should not -- cannot write on</p> <p>20 these.</p> <p>21 Q No, you cannot write on them.</p> <p>22 A Just double checking.</p> <p>23 Q If you feel the need to write,</p> <p>24 I can give you another copy of the marked</p> <p>25 exhibit, and you can write on that.</p>	<p>1 Jeffrey Hasterok</p> <p>2 talked to Dan and I about our experience</p> <p>3 and our approach on how we might go about</p> <p>4 valuing a transaction such as the RFA.</p> <p>5 They didn't just hire us sight unseen.</p> <p>6 They wanted to make sure that we would do</p> <p>7 in their opinion a decent job. So --</p> <p>8 Q All right. So let's back up</p> <p>9 maybe even a little bit further.</p> <p>10 You told us early this morning</p> <p>11 that you and Mr. Curry were introduced to</p> <p>12 Pacifica by Mr. Shapiro, correct?</p> <p>13 A Yes.</p> <p>14 Q So just rough order of</p> <p>15 magnitude, days, weeks, how long before</p> <p>16 September 23, 2013, do you believe you were</p> <p>17 first introduced to Pacifica by</p> <p>18 Mr. Shapiro?</p> <p>19 A Sure, it would have been, I</p> <p>20 think -- again, I think the summer, a few</p> <p>21 months before. I could be wrong. It could</p> <p>22 be later in the summer. It could actually</p> <p>23 have even been the spring, but I am</p> <p>24 happy -- I am happy to find my E-Mails and</p> <p>25 give you exact dates if you need them.</p>

14 (Pages 53 to 56)

Page 57	Page 59
<p>1 Jeffrey Hasterok 2 But it would have been a few 3 months before we actually signed this 4 agreement. 5 Q Okay. And before you ever 6 spoke with anyone from Pacifica Group or 7 communicated with them via E-Mail -- 8 A Right. 9 Q -- did you have any 10 discussions, you, have any discussions with 11 Mr. Shapiro about the matter? 12 A Yes. 13 Q Okay. So describe for me 14 everything you remember about those 15 discussions. 16 A Sure. Dan and I drove out to 17 Swap Financial in New Jersey, and we talked 18 about whether we would be interested in 19 doing this, meaning, Peter and Swap 20 Financial knew that we were currently not 21 working for a dealer or, you know, working 22 with full-time jobs. So -- and we were 23 both aware of this product, knew how it 24 worked, had had experience in it. 25 So in his mind -- again, you</p>	<p>1 Jeffrey Hasterok 2 Q And that was obviously with a 3 different group of people; is that right? 4 A That's correct. 5 Q Any Peter Shapiro involvement 6 in that one? 7 A Yes, I believe so. 8 Q What was the Peter Shapiro 9 involvement in that one? 10 A Swap Financial, I think, did 11 the original valuation on New York. 12 Q Okay. 13 A Certainly, Lehman's records 14 will show that he worked on that, I think. 15 And then New York's attorneys 16 decided that they wanted a second opinion; 17 so they were looking for, you know, another 18 report to come up with calculations. 19 I don't recall ever going over 20 New York and discussing the matter with 21 Swap Financial, bouncing ideas off of each 22 other about how to price it, the methods, 23 anything like that. 24 The intellectual banter was 25 within the folks that I worked for, which</p>
Page 58	Page 60
<p>1 Jeffrey Hasterok 2 can ask Peter -- but I believe, in his 3 mind, we were logical choices to 4 potentially work on this. 5 We drove out to his office, and 6 we talked about the fact that: 7 "Okay. It's a tobacco RFA. 8 There is a dispute over the valuation. Are 9 you interested in potentially working for a 10 muni client and doing a valuation report?" 11 And that's what we talked 12 about, and we decided: 13 "Yes, please forward our 14 information to the client and to their law 15 firm." 16 Q Before you drove out to meet 17 with Mr. Shapiro, had he sent you any of 18 the documentations on the deal? 19 A Not that I can recall. No. 20 Q And this meeting that you just 21 described, at this point in time, had you 22 already been engaged on the New York State 23 matter that you referred to? 24 A Yes. I had worked on that one 25 in the spring.</p>	<p>1 Jeffrey Hasterok 2 was Mohanty, that advisory firm that we 3 were doing -- we had an independence 4 arrangement with their law firm to provide 5 a valuation report. We did not work 6 collaboratively with Swap Financial. 7 Q Okay. Were you referred to -- 8 were you and Mr. Curry referred to Mohanty 9 by Mr. Shapiro? 10 A No. Seema -- the spelling is 11 S-e-e-m-a -- Seema Mohanty used to work at 12 Morgan Stanley, so with us. We all worked 13 on the same desk. She went to UBS and then 14 now runs her own shop. So colleague, 15 friend. 16 Q Okay. And without going into 17 the specifics of what work and the analysis 18 you did for New York State, did you use a 19 forward curve analysis in the work that you 20 did there? 21 A It was one of the methods we 22 looked at, but not the one, if I remember 23 correctly, we chose as the preferred 24 number. In that case, we didn't -- no, we 25 didn't use -- well, I will say "we" -- I</p>

15 (Pages 57 to 60)

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<p>1 Jeffrey Hasterok 2 think we -- if I remember correctly, we 3 used LIBOR swaps and made adjustments and 4 came up with a number, but say -- we 5 clearly said in the document there are 6 issues with using this method, this method, 7 and we would prefer you use this other 8 method. 9 Q Okay. And, again, just in 10 descriptively, what was the other method? 11 Was it the same method you used here? 12 A It was similar. It was -- if 13 I -- it was either -- it was either 14 commercial paper rates or their actual 15 reinvestment history. But it was 16 substantially similar to this. 17 Q Do you remember, in orders of 18 magnitude, what the size of the New York 19 State claim was? 20 A Some of the scenarios, if I 21 remember -- 22 Q No, just to be clear, what was 23 the claim filed by New York State, not your 24 scenarios? 25 A Oh, off the top of my head, I</p>	<p>1 Jeffrey Hasterok 2 report. There were the -- right, there are 3 two things. He does -- Swap Financial 4 would have done a report, and then there is 5 also a docket -- a public docket filing. 6 And in some cases, the docket 7 filings will just have a number and will 8 say: "I believe the number should be X." 9 And in some cases there is more 10 detail and granularity about the model and 11 the method, how they got there. 12 And I can't remember which, in 13 New York's case, Peter's filing was -- 14 whether it was just a number or it was a 15 model and a number. 16 But I seem to recall seeing the 17 actual model document that doesn't get 18 published to the docket. But I remember 19 seeing his report. 20 Q And do you recall his approach 21 generally being similar to the approach he 22 used in this case? 23 A Yes, to the best of my 24 knowledge, it was a swap-based -- a LIBOR 25 swap-based methodology.</p>
Page 62	Page 64
<p>1 Jeffrey Hasterok 2 don't remember. 3 Q Does the number of about 4 \$137 million sound right? 5 A It could. It was certainly a 6 bigger transaction than Washington. There 7 were two trades, actually, two reserve 8 funds in that case. 9 Q And do you know -- again, just 10 yes or no -- do you know what has happened 11 with the New York State claim against the 12 estate? 13 A I do not. Once we filed the 14 report, that was -- that was it for us. We 15 did not go further. 16 Q And did you discuss with 17 Mr. Shapiro at any time your methodology 18 and approach on the New York State matter? 19 A I don't recall doing that. 20 Q And do you recall reviewing 21 Mr. Shapiro's valuation or the Swap 22 Financial Group valuation that was done for 23 New York State? 24 A I think -- yes, I believe we 25 saw the Swap Financial report, valuation</p>	<p>1 Jeffrey Hasterok 2 Q Now, in this case, you came out 3 ultimately with a number in your report, 4 Exhibit 30, that at least numerically seems 5 to be similar to Mr. Shapiro's number, 6 correct? 7 A I don't recall exactly what his 8 number was, the claim that TSA filed. I 9 don't remember exactly what it was. But I 10 want to say it was above 30. And I think 11 our number was, what, 37 and a half. 12 Q Which is -- while we are on 13 that topic, let's take a look at 32, 14 please. 15 MR. LAWRENCE: Lehman 32. 16 Q Lehman 32. 17 You have been handed a document 18 marked Lehman 32. Take a moment to just 19 look at the document. I am going to have a 20 very basic question for you. 21 Have you seen that before 22 today? 23 A Yes. Yes, yes. 24 (Exhibit No. Lehman 32, 25 Valuation Claim Document filed by TSA,</p>

16 (Pages 61 to 64)

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<p>1 Jeffrey Hasterok 2 is marked by the reporter for 3 identification.) 4 A Yes, yes. 5 Q You have seen it before today? 6 A Yes, yes, sir. 7 Q And looking at the first page 8 of Lehman 32? 9 A Okay. The cover page? 10 Q Yes, the cover page. 11 A Okay. 12 Q You will see a number that 13 appears there of \$38 million -- 14 A Yes, I see that. 15 Q -- and some change? 16 A Yes. 17 Q Do you see that? 18 A Yes, I do, sir. 19 Q So the number that you 20 ultimately come up with in this case is 21 close to the number that Mr. Shapiro came 22 up with? 23 A Yes. 24 Q Is that correct? 25 A Yes.</p>	<p>1 Jeffrey Hasterok 2 and ours and compare them. 3 Q Had you completed your New York 4 State analysis when you met with 5 Mr. Shapiro in advance of being retained in 6 this case? 7 A I think so. I think I was 8 done. I believe so. I believe we had 9 filed the report with New York before this 10 engagement became real. 11 Q And did you discuss with 12 Mr. Shapiro the fact that you had done the 13 New York State analysis when you met him in 14 the summer of 2013? 15 A I can't recall if I told him we 16 were working on New York. When I say "we," 17 Dan -- Dan Curry did not work on New York 18 at all. It was just -- it was me working 19 at that point. 20 I cannot remember if I said we 21 were working on New York tobacco or just a 22 tobacco trade against Lehman. I cannot 23 recall. 24 Q You have that initial meeting 25 with Mr. Shapiro in the summer of 2013,</p>
Page 66	Page 68
<p>1 Jeffrey Hasterok 2 Q Okay. Although you disagree 3 with the way he got there, your numbers are 4 in the same ball park? 5 MR. LAWRENCE: Object to the 6 form. 7 Q Is that right? 8 A Yes, I would say that, as we 9 talked about earlier, his method, we 10 considered a similar approach, but we 11 viewed it as less appropriate than the way 12 we approached the matter. 13 Q Now, just turning your 14 attention back to the New York State 15 matter, do you recall coming out in 16 basically the same ball park as Mr. Shapiro 17 on that analysis? 18 A I want to say no. I think our 19 numbers were higher. But to give you 20 actual numbers, I would need to go back to 21 that report and pull it up and compare the 22 numbers. 23 But I am sure, as Lehman's 24 attorneys, you can do the same thing and 25 see Peter's -- see Swap Financial's report</p>	<p>1 Jeffrey Hasterok 2 roughly, some weeks or months before you 3 sign the engagement letter, correct? 4 A Sure, sure. 5 Q In terms of this engagement, 6 what happens next? 7 A Meaning like right after that 8 meeting? 9 Q Yes. 10 A What then happens? 11 Q Yes. 12 A I believe Swap Financial, 13 probably Peter, contacted the client and/or 14 Pacifica directly. I don't know who he 15 contacted. But said: 16 "I know two former Morgan 17 Stanley employees that you might consider 18 talking to." 19 And then I believe Kimberly, 20 which is a -- one of the Pacifica employees 21 contacted us. 22 THE WITNESS: I don't think it 23 was you contacted us first. I think 24 it was Kimberly. I can't remember who 25 first. It was one of the --</p>

17 (Pages 65 to 68)

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<p>1 Jeffrey Hasterok 2 MR. LAWRENCE: I am not 3 testifying. 4 THE WITNESS: Well, I am 5 just -- this is -- this is -- 6 MR. LAWRENCE: It's what you 7 remember. 8 A This is just factual stuff. I 9 think it was Kimberly that contacted us 10 first and said: 11 "Let's schedule a conference 12 call and talk about the matter." 13 Q All right. So you talked to 14 Mr. Shapiro. You get contacted by Pacifica 15 Law Group. You have a conference call. 16 Do you recall discussing -- 17 other than your credentials and your 18 experience, do you recall discussing the 19 specifics of the Washington state RFA? 20 A Yes. 21 Q Okay. Did you -- and did you 22 express a view in that call as to the 23 appropriate valuation methodology? 24 A We -- we probably would have 25 talked about -- again, my memory is fuzzy</p>	<p>1 Jeffrey Hasterok 2 depositions provided by Washington TSA 3 officials? 4 A No. 5 Q Have you read -- 6 A I have not -- no. I read a 7 little bit of Shapiro's deposition. I did 8 not read the entire document. And the 9 reason why I read a little bit of it is 10 because we were looking for a -- a footnote 11 on how to reference the quote process. 12 Q Just let me just step back a 13 step. 14 Is Mr. Shapiro's deposition the 15 only deposition that you have reviewed in 16 this case, or have you reviewed others? 17 A I think it was just Peter's, 18 but I could be wrong. 19 Q And you say you did not read 20 the entire document, just a little bit. 21 A Right. 22 Q How did you know what "little 23 bit" to look for? 24 A I asked Pacifica: 25 "Do you happen to know where</p>
Page 70	Page 72
<p>1 Jeffrey Hasterok 2 on exactly what was discussed in that 3 conference call from months ago. 4 But we probably would have 5 talked about the fact that there really is 6 no replacement market for this transaction 7 and that we are going to have to look at 8 the next best thing, which is, "What can 9 they actually do. How can they reinvest 10 their funds?" 11 We wouldn't have modeled up the 12 trade at that point. It would be speaking 13 in generalities. 14 Q Right. You have a meeting with 15 Mr. Shapiro. You have a conference call 16 with Pacifica Group. 17 Do you know if anyone from the 18 TSA was on that conference call? 19 A The Washington TSA? 20 Q Washington TSA. 21 A No, I don't believe -- no, to 22 my knowledge, I have not spoken or E-Mailed 23 anybody from the client directly. Our 24 contact has been with Pacifica directly. 25 Q Have you read any of the</p>	<p>1 Jeffrey Hasterok 2 a -- where can we reference the fact that a 3 quote process was attempted?" 4 And so Pacifica helped us -- 5 say: 6 "Look in this part of the 7 document, and there it is." 8 Q Did you believe Mr. Shapiro's 9 testimony? 10 A I did and do. 11 Q Do you believe he was telling 12 the truth when he described the quotation 13 process? 14 A I do. 15 Q Did you do anything to 16 independently verify whether Mr. Shapiro 17 was, in fact, telling the truth? 18 A I did not. 19 Q And having read his testimony, 20 did you have any questions about precisely 21 how Mr. Shapiro ran the quote process? 22 A No. 23 Q Completely clear to you? 24 A Yes, not -- again, not his 25 entire deposition, just that small section</p>

18 (Pages 69 to 72)

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<p>1 Jeffrey Hasterok 2 of it where he spoke to the quote process. 3 Q Do you know the name James 4 Gregara? 5 A Yes. 6 Q Do you know Mr. Gregara? 7 A Yes, he used to work at Morgan 8 Stanley. 9 Q Do you know whether he has 10 given a deposition in this case? 11 A I don't know. 12 Q Do you know what role, if any, 13 he has played with respect to this case? 14 A My guess is that he calculated 15 the termination amounts for Swap Financial. 16 That's a guess -- because he would have 17 been a junior person at Swap Financial 18 working collaboratively with Peter. That 19 was his role. He wasn't a senior partner 20 at Swap Financial. 21 And I don't think James is 22 there anymore. I don't know where he is 23 now. I don't know where he's working now. 24 Q Was he a senior person at 25 Morgan Stanley?</p>	<p>1 Jeffrey Hasterok 2 remember if he worked at Lehman first and 3 then came to Morgan Stanley or the other 4 way around. 5 Q Did you work with Mr. Gregara 6 on any forward purchase agreements or 7 forward delivery agreements? 8 A No, I can't recall us jointly 9 working on something together. 10 Q You said he wasn't a senior 11 guy? 12 A Right. 13 Q What was his role at Morgan 14 Stanley? 15 A I think, I think his -- he got 16 to, I think, associate or vice president. 17 It's analyst, associate, vice president, 18 executive director, managing director. 19 James did structuring tasks. I 20 believe he worked on some tobacco models. 21 Dan might have a better memory of exactly 22 what James did. 23 Q So going back to the retention 24 process, Mr. -- you have a conference call 25 with folks from Pacifica. Again, in terms</p>
Page 74	Page 76
<p>1 Jeffrey Hasterok 2 A No. 3 Q What was his role at Morgan 4 Stanley? 5 A He was on the -- in the public 6 finance and municipal group. If I remember 7 correctly, he was in derivatives. He was 8 in public finance. He bounced around a few 9 roles, but then left. 10 Q How long was he there? 11 A I don't remember, you know, 12 five, ten years, something like that. He 13 left, as I recall, voluntarily long before 14 I left Morgan Stanley. 15 Q Do you know where he went after 16 he left Morgan Stanley? 17 A Boy, I can't remember if he 18 went straight to Swap Financial or if he 19 went to UBS first. There are a bunch of 20 folks that went to UBS in '07 or '08 or 21 something like that or maybe even earlier. 22 But I can't recall. I'm sorry. 23 Q Do you know if he ever worked 24 at Lehman? 25 A That sounds right. I can't</p>	<p>1 Jeffrey Hasterok 2 of your being retained in September of 3 2013, what happens next? 4 A Then, once we signed the 5 engagement letter, they -- Pacifica started 6 to send us the relevant documents, things 7 like the RFA itself. We were -- we were 8 then connected to a piece of software 9 called Viewpoint, which is just the 10 software that allows us to see the 11 productions. 12 Q And what is your understanding 13 of what materials are available in 14 Viewpoint? 15 A We were able to see three 16 things. We saw Lehman's production, TSA's 17 production, and Swap Financial's 18 production. 19 And one of the tasks we 20 provided under our consulting agreement was 21 digging through Lehman's production and 22 marking particular line items as relevant 23 or irrelevant or duplications. 24 That was part of Dan and I's 25 job, is to help Pacifica sort through those</p>

19 (Pages 73 to 76)

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<p>1 Jeffrey Hasterok 2 for further review. 3 Q And that was work you began to 4 do on and after September 23, 2013; is that 5 right? 6 A Right. 7 Q What is the total amount that 8 you have billed to date for the work you've 9 done, you yourself? 10 A Right. Right. High 20s, I 11 think I have sent one invoice to Pacifica. 12 Dan and I hit the cap. We billed 35,000 13 for the report itself, and we have 14 approximately split that halfway, not dead 15 on halfway. 16 I billed 18. Dan is going to 17 bill 17. 18 And then with the discovery 19 review and meetings and et cetera, the 20 number is 28, something like that. 28,000 21 is the first bill. 22 Q That's your first bill? 23 A Yes, that's correct. 24 Q 18K in connection with the 25 valuation report, and then the rest of it</p>	<p>1 Jeffrey Hasterok 2 Q What is your understanding of 3 whether Mr. Shapiro is acting as an expert 4 witness in this case? 5 A What is my understanding of 6 Swap Financial's role? Is that it? 7 Q Yes. 8 A To my knowledge, they were 9 engaged by Pacifica and/or Washington. I 10 don't know who directly engaged Swap 11 Financial, but they were engaged to provide 12 an estimate of the termination amount on 13 the RFA. 14 Q And is it your understanding 15 that they are also providing an expert 16 opinion the same way you and Mr. Curry are? 17 A I don't know. 18 Q And if the court had to choose 19 between your methodology and Mr. Shapiro's 20 methodology, what should the court do? 21 MR. LAWRENCE: Objection to the 22 form. 23 A We believe that the methodology 24 that we proposed is the most appropriate. 25 Q Just to be clear, you are</p>
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<p>1 Jeffrey Hasterok 2 is for the other tasks; is that right? 3 A Yes. And Dan is going to have 4 a separate invoice. 5 Q Do you know how big Dan's 6 invoice is? 7 A It's going to be somewhat 8 similar to mine, maybe a little higher. 9 Q When you read the excerpt of 10 the Shapiro deposition, was that available 11 to you on Viewpoint, or you got it some 12 other way? 13 A I believe Pacifica E-Mailed us 14 that document. 15 Q Do you know if the depositions 16 are on Viewpoint? 17 A I don't recall. I don't 18 remember. I am happy to go check, but I 19 don't recall off the top of my head -- a 20 lot of documents 7,000 or 8,000 line items 21 so -- 22 Q I think you have before you 23 Exhibit 32, which has the Swap Financial 24 Group document. Do you see that? 25 A Yes.</p>	<p>1 Jeffrey Hasterok 2 saying the court should pick your 3 methodology over Mr. Shapiro's, correct? 4 MR. LAWRENCE: Objection to the 5 form. 6 A I have to answer it the same 7 way, I think. We believe that the court 8 should consider our methodology, but I am 9 not going to preclude them from viewing 10 other methodologies. That's not my place. 11 Q Well, I mean, if the court 12 picks Mr. Shapiro's methodology, the court 13 will be choosing not to follow your 14 methodology, correct? 15 MR. LAWRENCE: Object to the 16 form. 17 Q Yes. 18 A If they pick Swap Financial's 19 method, it doesn't necessarily mean that 20 it's mutually exclusive to ours. It could 21 be that the court considers ours as well as 22 an input in the decision. It doesn't have 23 to be a binary decision. 24 Q So even though Mr. Shapiro uses 25 a forward curve as a starting point and you</p>

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<p>1 Jeffrey Hasterok</p> <p>2 reject the use of the forward curve as the</p> <p>3 basis for your calculation, you believe the</p> <p>4 two are not mutually exclusive; is that</p> <p>5 right.</p> <p>6 MR. LAWRENCE: Object to the</p> <p>7 form.</p> <p>8 A I think that both Swap</p> <p>9 Financial and Dan and myself are trying to</p> <p>10 come up with reasonable estimates of</p> <p>11 valuation in a product that doesn't have a</p> <p>12 peer replacement anymore. And it's a</p> <p>13 difficult process, to say the least.</p> <p>14 And so taking into account</p> <p>15 multiple ways of calculating this seems</p> <p>16 reasonable. We elected to choose one</p> <p>17 method among many as in our view as the</p> <p>18 most reasonable.</p> <p>19 Q If I understand your grid, I</p> <p>20 believe, in the lead up to your grid, you</p> <p>21 reject the use of forward curves for any</p> <p>22 aspect of your multiple methodologies,</p> <p>23 correct?</p> <p>24 A No, that is not true. One of</p> <p>25 our methodologies was using cancellable</p>	<p>1 Jeffrey Hasterok</p> <p>2 significant issues with using that</p> <p>3 method --</p> <p>4 Q So --</p> <p>5 A -- which we list, and there are</p> <p>6 a bunch of bullet points we do under that</p> <p>7 method.</p> <p>8 Q I understand that you listed</p> <p>9 several bullet points under that method.</p> <p>10 My question is:</p> <p>11 In light of all of those bullet</p> <p>12 points, should the court view that</p> <p>13 methodology, the cancellable swap</p> <p>14 methodology that you posit, as a reasonable</p> <p>15 approach, or should the court reject that</p> <p>16 approach?</p> <p>17 MR. LAWRENCE: Object to the</p> <p>18 form.</p> <p>19 A It is less reasonable than the</p> <p>20 method that we chose. It is somewhat</p> <p>21 reasonable, but less reasonable than the</p> <p>22 one we elected to go with.</p> <p>23 Q So what should the court do</p> <p>24 with it?</p> <p>25 A Inform their decision, instead</p>
Page 82	Page 84
<p>1 Jeffrey Hasterok</p> <p>2 swaps. And that does use forward curves as</p> <p>3 part of calculating a swap rate with</p> <p>4 embedded options in it.</p> <p>5 Q And is there a reason why the</p> <p>6 cancellable swaps -- with respect to</p> <p>7 cancellable swaps, you believe it's</p> <p>8 appropriate to use a forward curve, but</p> <p>9 it's not appropriate with respect to any of</p> <p>10 the other items in the grid?</p> <p>11 A The difference there is that</p> <p>12 there is a better chance that the client</p> <p>13 could potentially maybe enter into that</p> <p>14 trade. We still found considerations</p> <p>15 around that method that might block and</p> <p>16 prohibit a client from actually entering</p> <p>17 into it.</p> <p>18 But we felt like that was a</p> <p>19 little closer than a trade that didn't have</p> <p>20 those cancellation options. A swap-based</p> <p>21 method without the options embedded was</p> <p>22 less appropriate than one with the options</p> <p>23 embedded.</p> <p>24 But even when you use the</p> <p>25 cancellable swap, there are still</p>	<p>1 Jeffrey Hasterok</p> <p>2 of -- instead of just plucking a number out</p> <p>3 of the air, we felt like, by showing</p> <p>4 multiple methods, multiple inputs, it gives</p> <p>5 the user of the report some sense of:</p> <p>6 "There are multiple ways of</p> <p>7 looking at this. And if you used multiple</p> <p>8 ways, you are going to come up with</p> <p>9 different numbers."</p> <p>10 And that gives you some depth</p> <p>11 of knowledge around and comfort with</p> <p>12 whatever number you happen to pick and</p> <p>13 whatever method you happen to pick, as</p> <p>14 opposed to having no comparison to that one</p> <p>15 model.</p> <p>16 Q And in your grid, therefore,</p> <p>17 you have included a methodology that uses</p> <p>18 the forward curve, and you have used -- you</p> <p>19 have used several methodologies that reject</p> <p>20 the forward curve?</p> <p>21 A That's true. Yes.</p> <p>22 Q And you believe that to be</p> <p>23 reasonable?</p> <p>24 A Well, what do you mean by</p> <p>25 "forward curve"? Are we, again, going back</p>

21 (Pages 81 to 84)

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<p>1 Jeffrey Hasterok</p> <p>2 to LIBOR swap curves and forwards based off</p> <p>3 of that? Is that what you mean by --</p> <p>4 Q Any kind of market-based inputs</p> <p>5 that look at expected future values for</p> <p>6 securities.</p> <p>7 A Okay. Because the reason I ask</p> <p>8 the question is -- can I -- can I flip</p> <p>9 through this?</p> <p>10 Q Sure.</p> <p>11 A Okay.</p> <p>12 Q Just to be clear, you are</p> <p>13 looking at Exhibit 30?</p> <p>14 A I am.</p> <p>15 Q Okay. Okay.</p> <p>16 A Let's go to the grid on page</p> <p>17 19, so the valuation matrix. The only one</p> <p>18 of these methods is the last one, the</p> <p>19 cancellable start, June of '09. That is</p> <p>20 the only method that uses the swap market</p> <p>21 and the forward curves implied by the LIBOR</p> <p>22 swap market as an input.</p> <p>23 The other methods are</p> <p>24 projecting a forward rate, but not based on</p> <p>25 long-term tradeable instruments. So I</p>	<p>1 Jeffrey Hasterok</p> <p>2 as I can tell is assume for purposes of</p> <p>3 that calculation, that line in your grid,</p> <p>4 that the rate is going to be 65 basis</p> <p>5 points in 2009, 2010, 2011, all the way out</p> <p>6 to 2032, right?</p> <p>7 A That is correct.</p> <p>8 Q That is -- did you look at any</p> <p>9 market data that showed that the market in</p> <p>10 March 2009 expected forward rates to be</p> <p>11 65 basis points for roughly 20 years?</p> <p>12 A To our knowledge -- well, you</p> <p>13 can ask Dan tomorrow -- but to my</p> <p>14 knowledge, no market exists where you can</p> <p>15 transact and lock in a rate that reflects</p> <p>16 what you will pay or receive as an investor</p> <p>17 in the money market funds in question.</p> <p>18 Q And that's true not only for</p> <p>19 the line you were just discussing, the</p> <p>20 65 percent line, but it's true for all of</p> <p>21 the lines other than your last line,</p> <p>22 correct?</p> <p>23 A Not exactly. For example, the</p> <p>24 scenario above where we talking about</p> <p>25 Fannie, Freddie discount notes, when --</p>
Page 86	Page 88
<p>1 Jeffrey Hasterok</p> <p>2 don't want to imply that we are not</p> <p>3 projecting.</p> <p>4 For example, in the method we</p> <p>5 selected, we are selecting 65 basis points,</p> <p>6 or 0.65 percent, as our projected</p> <p>7 reinvestment rate and replacement yield.</p> <p>8 We are projecting that going forward into</p> <p>9 the future.</p> <p>10 So if you want to say that</p> <p>11 that's a forward rate, I will agree with</p> <p>12 you. It's forward, but the rate is not</p> <p>13 based on long-term tradeable instruments,</p> <p>14 just to make that distinction.</p> <p>15 Q While we are on the topic, what</p> <p>16 is it based on? I mean, just to be clear,</p> <p>17 you take the 65 basis point line -- this is</p> <p>18 on page 19 of Exhibit 30. You have got</p> <p>19 this area called "actual and projected</p> <p>20 reinvestment," and in the "replacement</p> <p>21 yield" column you have 0.65 percent.</p> <p>22 That's the 65 basis points you are talking</p> <p>23 about, correct?</p> <p>24 A Correct.</p> <p>25 Q And what you have done as far</p>	<p>1 Jeffrey Hasterok</p> <p>2 FNMA is Fannie Mae and FHLMC is Freddie</p> <p>3 Mac.</p> <p>4 So those are agency discount</p> <p>5 notes.</p> <p>6 It does exist. I believe there</p> <p>7 is a basis swap market that exists where</p> <p>8 you can -- you can, for example, receive</p> <p>9 fixed on a LIBOR swap, pay three-month</p> <p>10 LIBOR, and then do another trade, a basis</p> <p>11 swap where you receive three-month LIBOR</p> <p>12 and then pay some index based on agency</p> <p>13 rates.</p> <p>14 And there is also one for</p> <p>15 commercial paper, another base -- a LIBOR</p> <p>16 versus commercial paper basis swap market.</p> <p>17 I don't think one exists for CDs to my</p> <p>18 knowledge.</p> <p>19 So there are markets that do</p> <p>20 exist for some of these where you can enter</p> <p>21 into long-term trades; but you have to</p> <p>22 generally be a dealer, or you have to be a</p> <p>23 sophisticated financial institution that</p> <p>24 has an ISDA in place with a dealer and who</p> <p>25 is willing to transact with you, usually in</p>

22 (Pages 85 to 88)

Page 89	Page 91
<p>1 Jeffrey Hasterok 2 a fully collateralized form. 3 So as the value of the trade 4 swings around during the life of the trade, 5 you have to post collateral against that 6 like a futures contract. If you trade a 7 future, you have to post collateral and 8 margin against it. 9 We did not use that methodology 10 in all of those line items. The only one 11 where we used the swap curve as an input is 12 really the last one, the cancellable swap. 13 Q Okay. All right. We will 14 probably discuss, as the day goes on, all 15 the things you didn't do. My question was: 16 In terms of the things that you 17 did do -- 18 A Yes. 19 Q -- putting aside that last line 20 where you did use a forward swap curve, you 21 did not use a market-input-based forward 22 curve for any of your other line items, 23 correct? 24 A Right. We used past 25 performance or average yields or past</p>	<p>1 Jeffrey Hasterok 2 the trade going forward. 3 Q Okay. It's a flat number going 4 forward, either for 10 years, 13 years, 5 16 years, 23 years? 6 A Yes. 7 Q Right. Okay. In all of your 8 years at Morgan Stanley, when you were 9 doing your various valuations, whether for 10 entering into a transaction or exiting a 11 transaction, did you hold yields constant 12 over such long periods of time? 13 A We would not have used this 14 type of analysis when -- this method. We 15 would not have used this method when 16 calculating new RFAs or terminations of old 17 RFAs. 18 Q All right. So the answer to my 19 question is that, in all of your years at 20 Morgan Stanley, you never used this type of 21 methodology? 22 A That's correct. 23 Q And as far as you're aware, 24 Mr. Curry at Morgan Stanley never used this 25 methodology, correct?</p>
Page 90	Page 92
<p>1 Jeffrey Hasterok 2 actual realized yields, in the case of the 3 65 basis points, and projected it into the 4 future. 5 Q And projected it unchanged, 6 constant, at the number in the column, 7 correct? 8 A All except the actual yield 9 plus 2013 OS, that one. That's why it says 10 55 basis points average. In the 2013 bond 11 deal that the TSA entered into, the 12 refunding transaction, there is an entry in 13 the OS that says: 14 "For purposes of this bond 15 deal, we are assuming that TSA will 16 earn" -- if I remember correctly -- "three 17 basis points starting out. And then it 18 will rise up to 75 basis points over the 19 course of the few years. And then it will 20 be 75 basis points for the rest of the 21 trade." 22 So that one is a sliding scale. 23 It rises up and then goes flat. 24 But, yes, for all of the other 25 ones, it's a flat number for the life of</p>	<p>1 Jeffrey Hasterok 2 A I doubt it. You can ask -- you 3 will have to ask him tomorrow. 4 Q Other than the discussions that 5 you have had with Mr. Curry and the use of 6 this methodology, are you aware of any 7 academic studies, analyses, that support 8 the use of holding rates fixed in this 9 manner for periods of 10, 15, 20 years? 10 A I am not. 11 Q Looking at the grid on page 19, 12 with respect to several of these scenarios, 13 you set forth two types of sub-scenarios. 14 You have an average yield December '08 to 15 March '09; and then you typically have an 16 average yield December '08 to June 2013. 17 Do you see that? 18 A Right. June '13, or the -- 19 there is one that goes to September of '13. 20 But, yes, yes. 21 Q Okay. Right. And just so I 22 understand, when you say "average yield," 23 what was your methodology for calculating 24 average yield for either of those two time 25 periods?</p>

23 (Pages 89 to 92)

Page 93	Page 95
<p>1 Jeffrey Hasterok</p> <p>2 A Sure. The data -- I do talk</p> <p>3 about it -- we talk about it earlier in --</p> <p>4 above the valuation matrix. The time</p> <p>5 series data on these asset classes is not</p> <p>6 universal. You don't have perfect daily</p> <p>7 data on commercial paper yields going back</p> <p>8 X number of years.</p> <p>9 So there are slightly different</p> <p>10 data sources which we refer to in the</p> <p>11 appendix and footnotes. But we would do</p> <p>12 things like -- in some cases, it was</p> <p>13 monthly data, and you are taking an</p> <p>14 average. That's not daily data that is</p> <p>15 being averaged.</p> <p>16 You would try to find as</p> <p>17 most -- as granular of time series data as</p> <p>18 possible, and then just average it up.</p> <p>19 What you are trying to get, what you are</p> <p>20 trying to show is -- what we were trying to</p> <p>21 show is, at the time past the failed</p> <p>22 delivery, TSA had to go and reinvest their</p> <p>23 money in something.</p> <p>24 And so we were trying to look</p> <p>25 at things they could have theoretically</p>	<p>1 Jeffrey Hasterok</p> <p>2 "Locked in" means entering --</p> <p>3 actually entering into a transaction that</p> <p>4 guarantees you some either fixed or</p> <p>5 floating rate for a period of time longer</p> <p>6 than an overnight. So you receive</p> <p>7 4 percent for ten years, and pay</p> <p>8 three-month LIBOR. That's locking in a</p> <p>9 rate. That's what I mean by that.</p> <p>10 Q Are you opining that it was</p> <p>11 possible in March of 2009 for TSA to lock</p> <p>12 in these replacement yield rates; is that</p> <p>13 the basis for your analysis?</p> <p>14 A No.</p> <p>15 Q In fact, the TSA currently is</p> <p>16 not locked into any one of these rates,</p> <p>17 correct?</p> <p>18 A That's absolutely true.</p> <p>19 Q And putting aside the fact that</p> <p>20 there was a reinvestment done or</p> <p>21 refinancing done of the bonds, in March of</p> <p>22 2009, the TSA had in its possession the</p> <p>23 reserve fund, correct?</p> <p>24 A Yes.</p> <p>25 Q And it could have invested that</p>
Page 94	Page 96
<p>1 Jeffrey Hasterok</p> <p>2 done that met their indenture requirements.</p> <p>3 They could have invested in CP or CDs or</p> <p>4 agencies. And we were trying to</p> <p>5 hypothetically say:</p> <p>6 "Had they done those things,</p> <p>7 here is approximately the yields they might</p> <p>8 have earned."</p> <p>9 Given that it didn't</p> <p>10 actually -- they didn't actually do these</p> <p>11 things, these are best guesses based on the</p> <p>12 time series data we could find. And I</p> <p>13 believe the time series data that we used</p> <p>14 is actually included in the spreadsheet</p> <p>15 that we provided to you.</p> <p>16 Q A few minutes ago, in response</p> <p>17 to one of my questions, you used a phrase</p> <p>18 "locked in." Just describe for me, in your</p> <p>19 methodology, what role does that phrase</p> <p>20 "locked in" play?</p> <p>21 A I believe I was talking about</p> <p>22 using long-dated swaps, long-tenor swaps,</p> <p>23 and then applying a basis curve and</p> <p>24 potentially receiving or paying a fixed</p> <p>25 rate in that package of transactions.</p>	<p>1 Jeffrey Hasterok</p> <p>2 reserve fund in any one of the eligible</p> <p>3 investments, correct?</p> <p>4 A Yes.</p> <p>5 Q It was required to invest it in</p> <p>6 eligible investments, and they have to be</p> <p>7 liquid every six months, correct?</p> <p>8 A Yes.</p> <p>9 Q And once the TSA refinanced the</p> <p>10 underlying bonds, it's now set up a new</p> <p>11 reserve fund; is that right?</p> <p>12 A Yes.</p> <p>13 Q But does the old reserve fund</p> <p>14 still exist?</p> <p>15 A To my knowledge, part of the</p> <p>16 old reserve fund was transferred to the new</p> <p>17 reserve fund. Some of the reserve fund was</p> <p>18 released as part of the refunding deal, so</p> <p>19 the new reserve fund amount is smaller than</p> <p>20 45. It's 30 something, higher -- high 30s,</p> <p>21 if I recall. But it's in the OS. It's</p> <p>22 easily looked -- we can look it up.</p> <p>23 But, yes, some of the -- some</p> <p>24 of the reserve -- the reserve from the</p> <p>25 \$45 million has been transferred to the new</p>

24 (Pages 93 to 96)

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<p>1 Jeffrey Hasterok 2 deal, the new bond deal. 3 Q And what the Washington TSA can 4 do with the new reserve fund is determined 5 by the new indenture and the new operative 6 offering documents; is that right? 7 A Yes. 8 Q The old ones are no longer 9 operative because those bonds have been 10 retired? 11 A Right. 12 Q And Washington TSA has had the 13 right to do that type of refinancing since 14 March of 2009, correct? 15 A Since the issuance of the bonds 16 in 2002. 17 Q They have always had that 18 right? 19 A Since the issuance of the 20 bonds, yes. 21 Q Going back to the grid on page 22 19 of Exhibit 30, in calculating your 23 averages for the period December of '08 24 through either June or September of 2013, 25 you used data, observed data from dates on</p>	<p>1 Jeffrey Hasterok 2 been in that money market fund since. 3 Q Okay. And you would agree with 4 me that, when the TSA made the decision to 5 invest in the money market fund, they could 6 just as easily have elected to invest in 7 Treasury bills; is that right? 8 A I wouldn't say just as easily. 9 And the reason why is, purchasing a 10 security like a T bill generally means you 11 have to call a broker, a dealer, and say: 12 "I want this CUSIP" -- CUSIP is 13 C-U-S-I-P, all caps -- "I want this 14 particular bond. Where will you sell it to 15 me?" 16 And the dealer says: 17 "Here's your price, done." 18 Once that security matures, you 19 have to go do it again and again and again, 20 every time the security matures. Buying 21 the money market fund is easier because 22 it's -- you dump the money into the fund 23 once, and, generally speaking, you are 24 going to monitor the investment to make 25 sure there is not an issue with the fund</p>
Page 98	Page 100
<p>1 Jeffrey Hasterok 2 and after March of 2009, correct? 3 A Yes, yes, in the -- for 4 example, under the CP, commercial paper 5 scenarios, the first one scenario stops at 6 March of '09. The second one goes past it. 7 Q So you looked at commercial 8 paper yields in late 2009 and 2010, and 9 2011, 2012, right? 10 A Yes. 11 Q And the same is true for the 12 CDs, correct? 13 A Yes. 14 Q And the same is true for the 15 Fannie and Freddie discount notes, correct? 16 A Yes. 17 Q And the same is true for the 18 actual and projected reinvestment. You 19 used yields that the TSA actually earned in 20 late 2009, and 2010, 2011; is that right? 21 A Yes, they have been in the 22 money market fund. They were in one money 23 market fund and switched to a different 24 one. 25 But to my knowledge they have</p>	<p>1 Jeffrey Hasterok 2 provider. But that has less operational 3 overhead than buying securities themselves 4 without you hiring somebody to do it for 5 you. 6 Q Do you know whether the 7 Washington TSA has hired a financial 8 advisor to advise it? 9 A I do not. 10 Q Do you know whether, in the 11 time period September 2008 through March of 12 2009, whether the Washington TSA had 13 financial advisors working for it? 14 A Well, they -- I believe -- I 15 don't know if they had an official 16 engagement with somebody like Barclay's and 17 JP Morgan, who, I believe, were their 18 underwriters on the original deal. I don't 19 know if they had official engagements with 20 them beyond just bankers contacting clients 21 and trying to get new transactions done. 22 I don't know if they had 23 derivative advisors, like a Swap Financial, 24 like a PFM -- or there are multiple firms 25 that do it. I don't know if they have</p>

25 (Pages 97 to 100)

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<p>1 Jeffrey Hasterok 2 hired them. I don't know. 3 Q Now, you mentioned PFM. In 4 doing the work that you have done on this 5 matter, did you look at any valuation 6 analyses done by PFM? 7 A I recall knowing that PFM has 8 done a swap-based analysis of terminating 9 FPAs like this, RFAs like this. I can't 10 remember where we read that. I can't 11 remember if that was -- I -- probably in 12 the discovery. 13 In the discovery review, there 14 may have been -- or it actually might have 15 been in the minutes of the TSA board 16 meetings. They may have -- I can't 17 remember if it was in the board meetings or 18 the internal memos amongst the finance 19 staff at TSA referring to PFM. 20 But if my memory serves, I 21 think PFM has looked at doing termination 22 prices and used a swap-based methodology. 23 Q And you know PFM as a financial 24 advisor in the municipal market, right? 25 A Absolutely, I think they are</p>	<p>1 Jeffrey Hasterok 2 A No. 3 Q And at no time did you seek to 4 speak with PFM about their analysis, right? 5 A We did not. 6 Q Do you have -- have you formed 7 any opinions about PFM's analysis? 8 A Well, I believe it's somewhat 9 similar to Swap Financial's, where you take 10 LIBOR swap curves and apply certain basis 11 adjustments for credit and profit and 12 delivery risks, things like that, and come 13 up with a number. 14 But we did not do any kind of 15 analysis to dig into it. 16 Q Okay. So no opinions with 17 respect to the PFM analysis? 18 A Anything that's based off of 19 long-term swaps, where you cannot 20 transact -- and when I say "you," I mean 21 TSA. 22 We don't believe TSA reasonably 23 has the ability to enter into long-term 24 swaps, non-callable swaps. Therefore, 25 that -- that problem, that inability to</p>
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<p>1 Jeffrey Hasterok 2 the biggest. If not, they are the second 3 biggest. It's them or PRAG, one of the 4 two. 5 Q It's them or who? 6 A PRAG. P-R-A-G, all caps. 7 Q And you just don't know one way 8 or the other whether PFM was a financial 9 advisor to the TSA -- 10 A I don't. 11 Q -- during this period of time? 12 A I don't. 13 Q Do you recall, as you sit here, 14 what valuation PFM had ascribed to the 15 termination of this agreement? 16 A Off the top of my head, I don't 17 know. 18 Q Do you recall it being a very 19 low number? 20 A I don't know. 21 Q Single digit millions? 22 A I don't know. 23 Q You don't know. 24 Did you ask -- did you ask 25 anyone any questions about PFM's analysis?</p>	<p>1 Jeffrey Hasterok 2 enter into, renders that methodology flawed 3 compared to -- relatively compared to the 4 one we chose. 5 It's still something you can 6 look at and come up with a number. But 7 it's a fundamental problem with that method 8 as itself. That's why we chose the one we 9 did and went away from that. 10 Q All right. Just going back to 11 our analysis about Treasuries, you said 12 there were some operational costs. Have 13 you estimated what those operational costs 14 would be? 15 A I have not. 16 Q And just as we discussed with 17 the Treasuries, you would agree with me 18 that every six months the TSA had the 19 ability to invest the reserve fund in 20 agency securities that matured in six 21 months, correct? 22 A Or shorter, yes. 23 Q Or shorter? 24 A Yes. 25 Q Right. And there would have</p>

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<p>1 Jeffrey Hasterok</p> <p>2 been some operational costs associated with</p> <p>3 that, correct?</p> <p>4 A I would believe so, sure. You</p> <p>5 would need to have a person actively</p> <p>6 calling the dealer community to do it</p> <p>7 and/or contract somebody to do it on your</p> <p>8 behalf.</p> <p>9 Q But other than those</p> <p>10 operational costs, nothing that prohibited</p> <p>11 the Washington TSA from buying eligible</p> <p>12 securities every six months?</p> <p>13 A Not that I am aware of, no.</p> <p>14 Q And they could do that for</p> <p>15 five years, ten years, fifteen years,</p> <p>16 twenty years, every six months buy eligible</p> <p>17 securities, right?</p> <p>18 A Correct, sure. Do you mind if</p> <p>19 I just grab some water? Keep talking.</p> <p>20 (There was a discussion off the</p> <p>21 record.)</p> <p>22 MR. TAMBE: It would be good</p> <p>23 time to take five minutes.</p> <p>24 (A break is taken.)</p> <p>25 Q Going back to Exhibit 30.</p>	<p>1 Jeffrey Hasterok</p> <p>2 Mr. Shapiro's testimony about what Swap</p> <p>3 Financial Group did to obtain quotes, you</p> <p>4 haven't seen any documents that support</p> <p>5 that testimony, correct?</p> <p>6 A Right.</p> <p>7 Q Okay. You were at Morgan</p> <p>8 Stanley in September of 2008 when Lehman</p> <p>9 failed?</p> <p>10 A Yes.</p> <p>11 Q And did you in September of</p> <p>12 2008 and thereafter receive requests for</p> <p>13 quotations from counterparties to Lehman?</p> <p>14 A Yes.</p> <p>15 Q And did you receive some of</p> <p>16 those by phone?</p> <p>17 A Yes. You would -- yes, you</p> <p>18 would receive advisors canvassing the</p> <p>19 market, asking around:</p> <p>20 "Do you have capacity to do</p> <p>21 such and such type of trades?"</p> <p>22 Q How about requests for quotes?</p> <p>23 Did you receive those over the phone or by</p> <p>24 E-Mail?</p> <p>25 A Both.</p>
Page 106	Page 108
<p>1 Jeffrey Hasterok</p> <p>2 A Back to the grid.</p> <p>3 Q Well, no. We will go to the</p> <p>4 other parts of this document now.</p> <p>5 A Okay.</p> <p>6 Q Turn to page six of 28.</p> <p>7 A Six. Okay. Got it.</p> <p>8 Q And I want to draw your</p> <p>9 attention to the second paragraph on that</p> <p>10 page which begins, "The definition of</p> <p>11 termination amount."</p> <p>12 A Yes.</p> <p>13 Q Now, in that paragraph, you</p> <p>14 discuss the Peter Shapiro deposition,</p> <p>15 correct?</p> <p>16 A Yes.</p> <p>17 Q And you write as follows:</p> <p>18 "In this report, the Swap</p> <p>19 Financial Group tried and failed to obtain</p> <p>20 quotes from every conceivable dealer of</p> <p>21 forward purchase agreements on or about</p> <p>22 January 2009."</p> <p>23 Do you see that?</p> <p>24 A Yes.</p> <p>25 Q And other than reading</p>	<p>1 Jeffrey Hasterok</p> <p>2 Q Okay.</p> <p>3 A Both.</p> <p>4 Q And when you responded to a</p> <p>5 request for a quote, did you do that by</p> <p>6 phone or over an E-Mail?</p> <p>7 A Phone, fax, E-Mail.</p> <p>8 Q What is your understanding of</p> <p>9 how Mr. Shapiro requested quotes?</p> <p>10 A Just what I read in the</p> <p>11 deposition.</p> <p>12 Q Do you know who at Swap</p> <p>13 Financial Group was the person who</p> <p>14 requested the quotes?</p> <p>15 A I don't.</p> <p>16 Q Okay. Do you know if Swap</p> <p>17 Financial Group kept any records of what it</p> <p>18 did?</p> <p>19 A I don't, no.</p> <p>20 Q It says at the end of that</p> <p>21 paragraph that we were looking at, the last</p> <p>22 phrase:</p> <p>23 "We agree that quotes and, in</p> <p>24 particular, actionable quotes could not be</p> <p>25 obtained at or around the rejection date."</p>

27 (Pages 105 to 108)

Page 109	Page 111
<p>1 Jeffrey Hasterok 2 Do you see that? 3 A Yes. 4 Q Okay. The rejection date was 5 March 2009, correct? 6 A Yes. 7 Q Now, you yourself, sitting at 8 the Morgan Stanley desk, were providing 9 quotes at this period of time, right? 10 A Sometimes. I can't remember if 11 we -- in this -- I can't remember on this 12 particular transaction if we were 13 contacted. If we were, it was probably my 14 boss, Kevin Schwartz. Kevin Schwartz was 15 my superior at Morgan Stanley. 16 It would probably have been 17 him, but I can't remember me personally 18 being involved in a quote on this 19 particular trade. 20 Q So I am just trying to 21 understand the sentence then. That entire 22 sentence reads: 23 "As municipal finance 24 professionals who structured and marketed 25 FPAs, we agree that quotes and, in</p>	<p>1 Jeffrey Hasterok 2 could not be obtained at or around the 3 rejection date. 4 Do you see that? 5 A Yes. 6 Q So if I understand your 7 testimony just now, what you are telling me 8 is that yourself don't recall having 9 provided quotes on transactions with all of 10 the features that the Washington TSA deal 11 had. 12 But, sir, you have no idea 13 whether others at Morgan Stanley and other 14 dealers were, in fact, providing quote at 15 or around the rejection date on similar 16 transactions, correct? 17 MR. LAWRENCE: Objection. 18 Sorry. Object to the form. 19 A It is our belief that the 20 replacement market for a trade 21 substantially similar to this transaction 22 did not exist. 23 Q See, my question is a little 24 bit narrower than that, okay, and my 25 question goes to the words you use in your</p>
Page 110	Page 112
<p>1 Jeffrey Hasterok 2 particular, actionable quotes could not be 3 obtained at or around the rejection date." 4 Putting aside "actionable 5 quotes," if I understand your prior 6 testimony, you are saying that quotes could 7 be obtained around the rejection date, 8 correct? 9 A Well, I would say we certainly 10 provided quotes on swaps which are not 11 RFAs. They are not the same contract. Did 12 we provide quotes on RFAs? We might have. 13 Did we provide quotes on 14 tobacco, long-dated tobacco RFAs with -- 15 one of the features of the TSA RFA is that 16 they had this ability to cancel the 17 transaction if there are turbo redemptions 18 of bonds. It's a feature of the deal. 19 But do I recall providing 20 quotes on that type of transaction? No. 21 Q Well, you don't say in your 22 report: "We don't recall quotes being 23 obtained at or around the rejection date." 24 You categorically state quotes, 25 and, in particular, actionable quotes,</p>	<p>1 Jeffrey Hasterok 2 report. 3 You and Mr. Curry state 4 categorically: 5 "As municipal finance 6 professionals," that, "quotes could not be 7 obtained at or around the rejection date." 8 Is that statement based on 9 anything other than just your belief? 10 MR. LAWRENCE: Object to the 11 form. 12 A When we are using the word 13 "quotes" in this report, we are make -- 14 using it in reference to this particular 15 transaction, not quotes for all types of 16 transactions across the entire market. 17 We are not trying to make a 18 statement that every single type of 19 transaction could not get quotes. That's 20 not what we are asserting. 21 We are speaking about one type 22 of transaction. And we don't believe that 23 the dealer community would provide quotes. 24 Q So let me just make sure I 25 understand what your beliefs are.</p>

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Page 113	Page 115
<p>1 Jeffrey Hasterok 2 Is it your belief that, at or 3 about the rejection date, the dealer 4 community was providing quotes for 5 long-dated forward purchase agreements? 6 MR. LAWRENCE: Object to the 7 form. 8 A Possibly. 9 Q Possibly. You just don't know 10 one way or the other? 11 A No. 12 Q Is it your belief that, at or 13 about the rejection date, the dealer 14 community was providing quotes for 15 long-dated forward purchase agreements with 16 a Tobacco Settlement Authority as the 17 counterparty? 18 A We don't think so. 19 Q Okay. And your belief that you 20 don't think so is based on what? 21 A In your -- in my role and Dan's 22 role as sitting on the desk, one of the 23 things you do is talk to advisors, okay, in 24 the market. That was one of our channels 25 of transactions.</p>	<p>1 Jeffrey Hasterok 2 what the capacity is in the market. 3 So what we are asserting is 4 that from -- from our memory from back in 5 that part of the world, in that time frame, 6 we didn't think that quotes on this type of 7 transaction could be reasonably obtained. 8 Q And just to be clear, when you 9 use the word "quote" just now in your 10 answer, you are talking about actionable 11 quotes someone prepared to enter into a 12 transaction; is that what you mean? 13 A We think that's the most 14 appropriate basis of "quote" for this type 15 of structure. 16 Q Okay. So, again, I am trying 17 to understand what you have written in your 18 report because you say "quotes," and, "in 19 particular, actionable quotes." 20 Do you mean the same thing by 21 those two phrases? 22 A No, they are not -- "the quote" 23 and "actionable quote" are not the same 24 thing. 25 Q Okay. How are they different?</p>
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<p>1 Jeffrey Hasterok 2 So an advisor would bid out a 3 deal of some type. So you are constantly 4 talking to them, trying to get an idea of 5 what's going on, what type of deals are 6 going done. The advisors are talking to 7 you because they want to know what's your 8 capacity to do things. 9 And we would get asked on a 10 regular basis: 11 "Do you have any tobacco 12 capacity? Can you do a tobacco deal?" 13 And we would say "no." And 14 then we would usually ask questions like, 15 "Are other people doing it," because you 16 want to -- you want to know that. If you 17 are the only one that is not doing a 18 particular business, you want to know why. 19 You want also want to know if 20 you're the only one doing a particular 21 business, and you want to know why. Maybe 22 you're -- you shouldn't be in it. 23 So you're -- that's -- I would 24 describe that as market color, market 25 feedback, trying to understand what the --</p>	<p>1 Jeffrey Hasterok 2 A A quote can be many things. 3 And that's why the dealer language, when 4 you -- when you -- now that -- now that I 5 am in a position to see past submissions of 6 other dealers -- you know, certainly, when 7 you are a dealer and you submit a quote, 8 you usually don't get to see what everybody 9 else did in their form of quote document. 10 A lot of times, you fill out a 11 forum and you put your conditions or 12 whatever and you send it in. You don't get 13 to see what everybody else said. 14 But a quote can be a mid-market 15 quote, for example, just a, "Here's our 16 model." It doesn't have any profit or loss 17 or reserves or anything in the number. 18 Or it can be, on the other 19 extreme, something that: 20 "We will stand by this number. 21 We will trade it. If you want to do this 22 trade, we will enter into the transaction." 23 So it can be a lot of things 24 depending on the dealer that's providing 25 it.</p>

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<p>1 Jeffrey Hasterok</p> <p>2 Q And you don't qualify the word</p> <p>3 "quotes" the first time you use it in this</p> <p>4 sentence. You just say "quotes." Then you</p> <p>5 say "in particular, actionable quotes" --</p> <p>6 A Right.</p> <p>7 Q -- "could not be obtained."</p> <p>8 So is it your opinion and your</p> <p>9 view that no quotes of any type could be</p> <p>10 obtained at or around the rejection date?</p> <p>11 MR. LAWRENCE: Object to the</p> <p>12 form.</p> <p>13 A We -- again, when we are using</p> <p>14 the word "quotes" here, we are talking</p> <p>15 about this transaction in particular. We</p> <p>16 are not trying to make a broad assertion</p> <p>17 that quotes for any type of derivative or</p> <p>18 forward purchase agreement -- we are not</p> <p>19 trying -- we are trying -- we are not</p> <p>20 trying to make it a blanket statement about</p> <p>21 the entire market.</p> <p>22 We really care about this</p> <p>23 transaction, and that's what we were</p> <p>24 speaking to.</p> <p>25 Q So let me see if I can narrow</p>	<p>1 Jeffrey Hasterok</p> <p>2 Q Did you ask anyone at Morgan</p> <p>3 Stanley whether they did so?</p> <p>4 A When?</p> <p>5 Q When you were hired for this</p> <p>6 assignment?</p> <p>7 A No, we did not contact Morgan</p> <p>8 Stanley and about what they have done or</p> <p>9 will do in this market. We did not poll</p> <p>10 the dealer market about quote processes and</p> <p>11 appetite for this product. We did not do</p> <p>12 that.</p> <p>13 Q And you did see that Wachovia</p> <p>14 at least did provide a quote --</p> <p>15 A Correct.</p> <p>16 Q -- in response to a request</p> <p>17 from Lehman, correct?</p> <p>18 A That was in the discovery, yes.</p> <p>19 Q Did you try to speak to anyone</p> <p>20 from Wachovia or Wells Fargo about what</p> <p>21 else they had generally done with respect</p> <p>22 to quotes at or around the rejection date?</p> <p>23 A We did not.</p> <p>24 Q Now, you wouldn't be surprised</p> <p>25 to learn that Morgan Stanley did provide</p>
Page 118	Page 120
<p>1 Jeffrey Hasterok</p> <p>2 this down then.</p> <p>3 The opinion you were trying to</p> <p>4 convey to the court is that quotes on the</p> <p>5 Washington TSA contract could not be</p> <p>6 obtained at or around the rejection date;</p> <p>7 is that right?</p> <p>8 A Yes.</p> <p>9 Q Okay. You don't know one way</p> <p>10 or the other whether quotes could be</p> <p>11 obtained on other tobacco RFA agreements,</p> <p>12 correct?</p> <p>13 A It is our guess that they</p> <p>14 couldn't.</p> <p>15 Q Other than your "guess," do you</p> <p>16 have any other basis for saying that?</p> <p>17 A Beyond the market color process</p> <p>18 that I described earlier, no, because there</p> <p>19 is no way for me to know exactly what every</p> <p>20 other dealer is doing in the market.</p> <p>21 Q You were at Morgan Stanley,</p> <p>22 right? Do you know whether Morgan Stanley</p> <p>23 provided quotes on tobacco RFAs at or about</p> <p>24 the rejection date?</p> <p>25 A They may have.</p>	<p>1 Jeffrey Hasterok</p> <p>2 quotes on tobacco RFAs at or about the</p> <p>3 rejection date; would you?</p> <p>4 A I would say that my superior,</p> <p>5 Kevin, didn't tell me everything he did.</p> <p>6 So if he provided a quote on something,</p> <p>7 that doesn't necessarily mean he told me he</p> <p>8 did.</p> <p>9 Q Okay. So there were things</p> <p>10 going on, in fact, at Morgan Stanley that</p> <p>11 you may or may not be aware of from the</p> <p>12 relevant time period?</p> <p>13 A Of course.</p> <p>14 Q And you certainly don't know</p> <p>15 what was going on at other dealers at this</p> <p>16 point in time?</p> <p>17 A Not with 100 percent certainty,</p> <p>18 no.</p> <p>19 Q So the opinion you express in</p> <p>20 here, that quotes could not be obtained at</p> <p>21 or around the rejection date, that's just</p> <p>22 base on your own personal experience and</p> <p>23 your memory of that experience; is that</p> <p>24 right?</p> <p>25 A Yes.</p>

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<p>1 Jeffrey Hasterok</p> <p>2 Q As part of your work on this</p> <p>3 case, have you reviewed the claims filed by</p> <p>4 any other Tobacco Settlement Authorities</p> <p>5 against the Lehman estate?</p> <p>6 A I have searched for things like</p> <p>7 the word "tobacco" in the public docket web</p> <p>8 site.</p> <p>9 Q Epic is that web site?</p> <p>10 A Yes, right, I think that's what</p> <p>11 it's called. But if you search Google for</p> <p>12 "Lehman dockets," it takes you to a web</p> <p>13 site. And you can enter in -- you can</p> <p>14 enter in words like "tobacco" -- I think,</p> <p>15 actually, in Washington's case, it's</p> <p>16 misspelled "tabacco" with an "a."</p> <p>17 So, yes, we were looking for</p> <p>18 potentially public information where there</p> <p>19 may have been information about what other</p> <p>20 Tobacco Settlement Authorities had -- have</p> <p>21 come to an agreement with Lehman because</p> <p>22 that would have been a helpful data point</p> <p>23 to know:</p> <p>24 Where did they settle? Did</p> <p>25 they show a method?</p>	<p>1 Jeffrey Hasterok</p> <p>2 categorically, quotes could not be obtained</p> <p>3 at or around the rejection date, correct?</p> <p>4 MR. LAWRENCE: Objection to the</p> <p>5 form.</p> <p>6 A Again, we are speaking about</p> <p>7 Washington TSA.</p> <p>8 Q All right. Let's talk about</p> <p>9 average life and expected maturity date,</p> <p>10 the concept you address?</p> <p>11 A Is there a page you want me to</p> <p>12 flip to?</p> <p>13 Q Yes, starting on page eight of</p> <p>14 your report.</p> <p>15 A Page eight, okay.</p> <p>16 Q You have a discussion that</p> <p>17 begins on page eight and continues</p> <p>18 through -- it looks like page 12 -- that</p> <p>19 talks about average life and expected</p> <p>20 maturity date.</p> <p>21 Now, I believe you agree that,</p> <p>22 as of March 2009, the only public statement</p> <p>23 made by Washington TSA with respect to the</p> <p>24 series 2002 bonds was that there was an</p> <p>25 estimated final total redemption date of</p>
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<p>1 Jeffrey Hasterok</p> <p>2 I believe Cal might have some</p> <p>3 information out there, but, yes, we</p> <p>4 certainly searched for the word "tobacco"</p> <p>5 in the public docket.</p> <p>6 Q And did you -- when you did</p> <p>7 that search, you did get some hits for</p> <p>8 tobacco counterparties who had claims</p> <p>9 against Lehman, correct?</p> <p>10 A Correct.</p> <p>11 Q Okay. Did you look into these</p> <p>12 claims to see what the claims were?</p> <p>13 A A cursory review. I don't</p> <p>14 think there is a ton of information</p> <p>15 available in the docket that was really</p> <p>16 enough depth and detail that would have</p> <p>17 helped us with our numbers.</p> <p>18 Q Do you know, for example,</p> <p>19 whether any of the claims that have been</p> <p>20 submitted are based on market quotations?</p> <p>21 A I don't know.</p> <p>22 Q Well --</p> <p>23 A I don't know.</p> <p>24 Q Under your expectation, there</p> <p>25 should be none because you say,</p>	<p>1 Jeffrey Hasterok</p> <p>2 June of 2019, right?</p> <p>3 A Well, in our -- on page ten, we</p> <p>4 were able to find the board minutes from</p> <p>5 June of '09. So a few months after March</p> <p>6 of '09, where the calculation, according to</p> <p>7 their bankers, TSA's bankers, I believe</p> <p>8 Barclay's, maybe JP Morgan or both, they</p> <p>9 are using a base line assumption of '22.</p> <p>10 So as of March, I don't know</p> <p>11 off the top of my head if there were other</p> <p>12 public documents available that showed '22</p> <p>13 or '19 or some other date.</p> <p>14 What would have been publicly</p> <p>15 available at that time would have been</p> <p>16 things like turbo redemptions, the actual</p> <p>17 turbo redemptions that the TSA made versus</p> <p>18 what actual -- excuse me -- what was</p> <p>19 projected in the original bond OS from</p> <p>20 2002.</p> <p>21 Q Just so I am clear, in the work</p> <p>22 that you did in putting together this</p> <p>23 report and your analysis, you have found no</p> <p>24 public statements from the Washington TSA</p> <p>25 as of March of 2009 where they suggest that</p>

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<p>1 Jeffrey Hasterok</p> <p>2 there is a different turbo date for the</p> <p>3 2002 bonds than June of 2019, correct?</p> <p>4 A Yes, I couldn't -- I can't</p> <p>5 recall anything -- generally, the</p> <p>6 minutes -- if you read through the TSA</p> <p>7 minutes, they are -- not every board</p> <p>8 minute -- not every minutes -- not every</p> <p>9 board meeting explicitly says a date.</p> <p>10 Okay. They generally have</p> <p>11 updates from their banking team in most of</p> <p>12 their board meetings. And most of those</p> <p>13 minutes talk about a slowdown in</p> <p>14 consumption, the overall health of the</p> <p>15 tobacco market. In some cases, they will</p> <p>16 actually put a date in. In other cases,</p> <p>17 they don't.</p> <p>18 Q Did they ever put a date in, at</p> <p>19 any time before March of 2009, other than</p> <p>20 the June 2019 date?</p> <p>21 A I don't know.</p> <p>22 Q You didn't see any such</p> <p>23 occasion, right?</p> <p>24 A Not that I can recall.</p> <p>25 Q All right. And then on page 11</p>	<p>1 Jeffrey Hasterok</p> <p>2 estimate was around 2025, so, yes, so</p> <p>3 not -- right.</p> <p>4 So when I say -- we say "past,"</p> <p>5 we mean prior to the date of the report,</p> <p>6 not prior to -- prior to March of '09.</p> <p>7 Q And if you said "past" meant</p> <p>8 prior to March of '09, the date of</p> <p>9 rejection, only the first two dots on page</p> <p>10 11 would be past projection; is that</p> <p>11 correct?</p> <p>12 A That's -- according to this</p> <p>13 data set, yes.</p> <p>14 Q And if you ran a regression</p> <p>15 analysis on those first two dots, you would</p> <p>16 get a flat line of 2019?</p> <p>17 A Correct. If those were your</p> <p>18 only two inputs, yes, I agree with that.</p> <p>19 Q All right. Let's go to the</p> <p>20 discussion about the forward curves on</p> <p>21 pages 13 through 15 of your report. On</p> <p>22 page 14 you have a graph, a chart, again,</p> <p>23 with a blue line and red line.</p> <p>24 A Right. Apologies if anybody is</p> <p>25 color blind.</p>
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<p>1 Jeffrey Hasterok</p> <p>2 of your report, you have got a chart on</p> <p>3 there; and you have got a series of data</p> <p>4 points that are in blue, and then you have</p> <p>5 got other points that are in red.</p> <p>6 Do you see that?</p> <p>7 A Yes.</p> <p>8 Q Okay. And the red ones are</p> <p>9 your projections based on the data that you</p> <p>10 have analyzed?</p> <p>11 A That's correct.</p> <p>12 Q Okay. Now, you call the blue</p> <p>13 dots "past projections"; do you see that?</p> <p>14 A Correct.</p> <p>15 Q But many of them, in fact, are</p> <p>16 not past March 2009. They are just past</p> <p>17 the date of this report, correct?</p> <p>18 A Let's see. I'll give you the</p> <p>19 right answer here, so, let's see, the blue</p> <p>20 one would have been -- it would have been</p> <p>21 past -- prior to today, yes, the date of</p> <p>22 the report. Right.</p> <p>23 So the last blue dot is</p> <p>24 approximately as of 2013, July of '13 --</p> <p>25 that's the final blue dot. And the</p>	<p>1 Jeffrey Hasterok</p> <p>2 Q On the blue line, which you</p> <p>3 have labeled, "Implied three-month LIBOR</p> <p>4 resets," correct?</p> <p>5 A Yes.</p> <p>6 Q The data you used to obtain</p> <p>7 that line is data that was available to the</p> <p>8 market on the rejection date, correct?</p> <p>9 A Yes.</p> <p>10 Q The red line, which you</p> <p>11 label, "Actual three-month LIBOR resets,"</p> <p>12 that's based on data that became available</p> <p>13 to the market after March of 2009, correct?</p> <p>14 A That is true.</p> <p>15 Q You footnote on page 14 some</p> <p>16 material written by Peter Orr; do you see</p> <p>17 that?</p> <p>18 A Yes.</p> <p>19 Q Who is Peter Orr?</p> <p>20 A He is a former JP Morgan, I</p> <p>21 believe, banker slash derivative marketer,</p> <p>22 who has his own shop now, as -- he sells</p> <p>23 structuring software for the public finance</p> <p>24 market.</p> <p>25 Q And that's someone you have</p>

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<p>1 Jeffrey Hasterok 2 worked with in the past? 3 A I didn't personally work with 4 Peter, but I certainly heard his name from 5 colleagues who used to work with him at JP, 6 or I believe he worked at JP, if my memory 7 serves. 8 Q And this publication that you 9 refer to, this article you refer to, what 10 is it? Is it an academic study? 11 A If you consider Peter an 12 academic, then, yes, but it's his -- it's 13 his attempt at trying to understand: 14 Do swap curves, Treasury 15 curves, agency curves, whatever the curve 16 might be, do they tend to under- or 17 over-predict where rates will actually go, 18 compared to the prediction they make on day 19 one? 20 Q All right. Well, my question 21 about whether it's an academic study was a 22 slightly more serious question. 23 You are familiar with finance, 24 academic finance journals; are you not, 25 sir?</p>	<p>1 Jeffrey Hasterok 2 part of his web site. Intuitive Analytics 3 is his company. 4 Q Right. 5 (There was a discussion off the 6 record.) 7 (Exhibit No. Lehman 33, 8 Printout of Web Page, Peter Orr 9 Article, is marked by the reporter for 10 identification.) 11 Q So I have placed before you a 12 document marked Lehman Exhibit 33. That's 13 a web page we accessed based on your 14 description on page 28 of the report. 15 That's the Peter Orr article you were 16 referring to, correct? 17 A Yes. 18 Q And you cite Mr. Orr for the 19 proposition that -- well, he's the only 20 support you cite for your opinion that the 21 forward rates, forward curves should be 22 rejected, correct? 23 MR. LAWRENCE: I'm sorry. I 24 didn't understand it. Could you read 25 the question back.</p>
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<p>1 Jeffrey Hasterok 2 A Sure, the Journal of Finance. 3 There are -- you could have publications 4 from professors at respected universities, 5 sure, if that's -- sure. 6 Q If you think about an academic 7 study in those terms, something that would 8 be published in the Journal of Finance -- 9 A Sure. 10 Q -- the Peter Orr article that 11 you referred to, was that published in the 12 Journal of Finance? 13 A I don't know. 14 Q Okay. 15 A I don't know if he had it 16 peer-reviewed, for example. 17 Q Okay. If I understand your 18 expert report correctly -- I think you have 19 told us where you got this article from if 20 you look at page 28 of 28, the last page. 21 A Yes, it's a web -- a URL. It's 22 a web link. 23 Q It's a URL. It's a web link. 24 It's a blog; isn't it? 25 A Peter, there it is. Yes, it's</p>	<p>1 Jeffrey Hasterok 2 MR. TAMBE: I can rephrase the 3 question. 4 MR. LAWRENCE: Okay. Thank 5 you. 6 Q Mr. Orr is the only article you 7 cite for the proposition that forward 8 rates, forward curves should be rejected, 9 correct? 10 A It is the only article we cite, 11 yes. 12 Q Did you do any kind of a study 13 of all the literature out there about 14 forward curves before you decided to pick 15 Mr. Orr? 16 A We did not. 17 Q And I think we covered this. I 18 just want to be sure. 19 As far as you know, whatever 20 Mr. Orr says in this article, Lehman 21 Exhibit 33, you don't know if it has been 22 peer-reviewed or not? 23 A I have no idea. 24 Q And it's your view that this 25 article supports your contention that the</p>

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<p>1 Jeffrey Hasterok</p> <p>2 forward curve should not be used to value</p> <p>3 the Washington TSA contract, correct?</p> <p>4 A It is one factor, yes, that we</p> <p>5 believe that -- as we said earlier, using</p> <p>6 long-dated contracts as the basis of the</p> <p>7 valuation, because the TSA cannot enter</p> <p>8 into them, is -- is problematic, and is</p> <p>9 less attractive than the model we</p> <p>10 suggested.</p> <p>11 Q Now, just to be clear, nowhere</p> <p>12 in this article does Mr. Orr adopt a</p> <p>13 valuation approach for a long-dated</p> <p>14 contract like the one you have adopted,</p> <p>15 correct?</p> <p>16 A Absolutely. He's -- that is</p> <p>17 not the gist of what's he's talking about.</p> <p>18 He's not talking about how to value RFAs.</p> <p>19 Q All right.</p> <p>20 Okay. Did you review other</p> <p>21 materials written by Mr. Orr other than</p> <p>22 this article?</p> <p>23 A I would have clicked around his</p> <p>24 web site a little bit; but I didn't -- I</p> <p>25 didn't do an exhaustive search of the</p>	<p>1 Jeffrey Hasterok</p> <p>2 this type of analysis, looked at some --</p> <p>3 some market like Treasuries, like LIBOR</p> <p>4 swaps, and done the work -- the actual work</p> <p>5 of saying:</p> <p>6 "On day one, here is the swap</p> <p>7 curve, for example. Here are the</p> <p>8 implied -- here is the implied path of</p> <p>9 rates on that day," and then compare it to</p> <p>10 the actual path over time, and then shift</p> <p>11 it by a day and do it again and shift it by</p> <p>12 a day and do it again.</p> <p>13 Dan and I did not do the actual</p> <p>14 coding work ourselves. We were hoping to</p> <p>15 take a shortcut and find somebody who had</p> <p>16 done that work.</p> <p>17 Q Now, you have been in the</p> <p>18 financial markets more than ten years,</p> <p>19 right?</p> <p>20 A Yes.</p> <p>21 Q You know the forward curve</p> <p>22 changes everyday, correct?</p> <p>23 A Yes.</p> <p>24 Q So you could have the forward</p> <p>25 curve tell you the market expectations on a</p>
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<p>1 Jeffrey Hasterok</p> <p>2 internet and the financial literature and</p> <p>3 Lexis/Nexis type searches for everything he</p> <p>4 has written. I have -- I did not do that.</p> <p>5 Q And did you do any kind of an</p> <p>6 analysis to see if the views expressed by</p> <p>7 Mr. Orr had also been expressed in any</p> <p>8 peer-reviewed academic journal?</p> <p>9 A We did not.</p> <p>10 Q Well, did you look to see if</p> <p>11 any of Mr. Orr's views as expressed in</p> <p>12 Lehman Exhibit 33 had been opposed or</p> <p>13 disagreed with by published academic</p> <p>14 literature?</p> <p>15 A We did not seek out direct</p> <p>16 opposition to this thesis.</p> <p>17 Q How did you know to go to</p> <p>18 Mr. Orr's web site?</p> <p>19 A Google search. We did not know</p> <p>20 to go to his particular site.</p> <p>21 Q What did you search for in</p> <p>22 Google?</p> <p>23 A We were looking, again, for</p> <p>24 some type of report, analysis, financial</p> <p>25 literature, that somebody had looked at</p>	<p>1 Jeffrey Hasterok</p> <p>2 particular date, and you know for virtual</p> <p>3 certainty, reality, a week later, a month</p> <p>4 later, a year later, it's going to be</p> <p>5 something different, right?</p> <p>6 A I agree.</p> <p>7 Q So that's not rocket sign; is</p> <p>8 it, sir?</p> <p>9 A No.</p> <p>10 Q Now, what search did you run in</p> <p>11 Google?</p> <p>12 A We probably looked for -- I</p> <p>13 can't remember exactly what I wrote. But</p> <p>14 it would have probably been implied</p> <p>15 forwards versus actual forwards, something</p> <p>16 along those lines.</p> <p>17 Q You didn't keep a record of</p> <p>18 what search you ran to get to Mr. Orr's</p> <p>19 article, right?</p> <p>20 A No, I did not.</p> <p>21 Q And I suspect, when you ran</p> <p>22 your search, Google being Google, you got</p> <p>23 pages and pages of results, right?</p> <p>24 A I would assume so, yes.</p> <p>25 Q Where did Mr. Orr appear, page</p>

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<p>1 Jeffrey Hasterok 2 one? 3 A I don't remember. 4 Q Top of page one? 5 A I don't remember. 6 Q So you may have gone past many 7 articles before you got to Mr. Orr's 8 article? 9 A Sure. 10 Q There may have been many more 11 after Mr. Orr? 12 A Sure. 13 Q And some of those articles may 14 have disagreed with Mr. Orr? 15 A Sure. 16 Q And some may well have agreed 17 with Mr. Orr? 18 A I agree. 19 Q And can you recreate the 20 results of that search you ran? 21 A No. 22 Q All right. So the chart that 23 Mr. Orr has on page one of Exhibit 33, you 24 understand Mr. Orr as sort of comparing a 25 forward curve to actual spot prices --</p>	<p>1 Jeffrey Hasterok 2 calls it a blog. 3 A Okay. Yeah -- no, it's his 4 blog. 5 Q Okay. 6 A The last sentence is: 7 "However, if you're an issuer 8 or working with an issuer looking at some 9 sort of scenario analysis on their debt 10 portfolio, forward rates might be good to 11 know, but probably not the end of the 12 forecasting road." 13 Q So that's the sentence that you 14 believe supports your rejection of the 15 forward curve in your analysis? 16 MR. LAWRENCE: Object to the 17 form. 18 Q Is that right? 19 MR. LAWRENCE: Object to the 20 form. 21 A No, no, I -- the core of why we 22 don't use it goes back to the inability of 23 TSA to transact. That's more important. 24 And that's why we went away from it as the 25 preferred method -- still thought about it,</p>
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<p>1 Jeffrey Hasterok 2 A Yes. 3 Q -- over some long period of 4 time? 5 A Yes. 6 Q And he's doing that with the 7 respect to the US Treasury ten-year rates, 8 right? 9 A Correct. 10 Q Notwithstanding this chart and 11 this list, which looks like it's a 30- or 12 40-years history, in 2010, the financial 13 markets were still using forward curves, 14 correct? 15 A Yes. 16 Q And the US Treasury ten-year 17 note was deep, liquid, widely traded? 18 A Yes. 19 Q So whatever else Mr. Orr may be 20 saying in this article, he's not saying: 21 "Don't use the forward curve to 22 do a valuation analysis," correct? 23 A The last sentence on page two 24 of his entry, his entry, his article -- 25 Q Call it a blog. It's okay. He</p>	<p>1 Jeffrey Hasterok 2 still looked at it. That's why we ended up 3 with the cancellable swap scenario. 4 But the point of this article 5 and why we included it is simply to show, 6 just because on a given day the swap curve 7 or the Treasury curve implies rates are 8 going to follow a path, doesn't mean it 9 actually will follow that path. 10 That's simply what we were 11 trying to get at. 12 Q But as we just discussed, 13 that's not news or rocket science. No one 14 says the forward curve actually tells the 15 future, correct? 16 A No one? I can't say that. 17 Q It's not a crystal ball, 18 correct? 19 A I can't speak for everybody in 20 the entire financial markets, but our 21 thrust here is that forward rates are 22 unknown and -- sorry. 23 The actual path of forward 24 rates, the future is unknown. The future 25 is unknown. That's all we are getting at.</p>

35 (Pages 137 to 140)

Page 141	Page 143
<p>1 Jeffrey Hasterok 2 Q Right, the future is unknown, 3 but the forward rate on any given day is 4 known? 5 A Can be calculated and inferred 6 from tradeable securities, you are 7 absolutely right. 8 Q And just to be clear, trillions 9 of dollars of transactions are done on the 10 basis of that forward curve? 11 A Yes. 12 Q And, in fact, Mr. Orr, right 13 before he gets to the sentence you quoted, 14 says: 15 "If you are in a financial 16 services environment as a trader or you are 17 looking to perform a fair price analysis of 18 an interest rate derivative using an 19 interest rate model, you better" -- I 20 believe he's italicized "better" -- "you 21 better use forward rates." 22 The next sentence: 23 "If you have got complete and 24 relatively efficient markets, you'll get 25 your head removed if you don't."</p>	<p>1 Jeffrey Hasterok 2 Do you see that? 3 A I'm sorry. I'm sorry. I 4 don't. 5 Q You're on the page. 6 A I'm on the right, page two. 7 Q On the bottom? 8 A On page two. Okay. Where? 9 Sean's comment, or Peter's foil to Sean's 10 comment? What -- 11 Q Peter's response to Sean's 12 comment? 13 A Okay. 14 Q It starts off with, "Hi, Sean, 15 thanks for the comment." 16 At the end of that line: 17 "If anything, realized rates 18 are likely to be higher than those forwards 19 at some point over that ten-year horizon, 20 at least at the long end." 21 A Okay. 22 Q All right. Did you -- and the 23 horizon in our case, just to be clear, is 24 not in your view -- not just a 10-year 25 horizon; it's a 23-year horizon, right?</p>
Page 142	Page 144
<p>1 Jeffrey Hasterok 2 Do you see that? 3 A Very eloquent, yes. 4 Q You don't disagree with that? 5 A I do not. 6 Q Now, you'll see that he engages 7 in some commentary with one of his readers 8 right below his blog. 9 Do you see that? 10 A Okay. I didn't read that 11 before. But -- 12 Q Take the time to read it. 13 A Okay. 14 Q Someone called Sean writes to 15 him, and he responds to Sean, and do you 16 see that? 17 A Yes. 18 Q Okay. 19 A Yes. 20 Q And then he says at the end of 21 that first line into the second line: 22 "If anything, realized rates 23 are likely to be higher than those forwards 24 at some point over the ten-year horizon, at 25 least at the long end."</p>	<p>1 Jeffrey Hasterok 2 A Right. 3 Q Okay. Did you do any -- well, 4 you didn't read this line before today? 5 A I did not. That's my first 6 time reading that. 7 Q And it's safe to say you didn't 8 do any analysis to see, to the extent the 9 forward curve is not a crystal ball, does 10 it under-predict or over-predict, correct? 11 A We did not do any kind of data 12 analysis that can weigh one or the other. 13 I cannot tell you with any certainty 14 whether it over-predicts or under-predicts 15 and under which right environments it does 16 so. 17 Q But going back to your graph in 18 Exhibit 30 on page 14, so you have got 19 the -- if you can get Exhibit 30 for him, 20 yes. 21 MR. LAWRENCE: His report. 22 Q You have looked -- you have put 23 out there the forward curve for three-month 24 LIBOR that existed on March 2009, correct? 25 A Yes.</p>

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<p>1 Jeffrey Hasterok</p> <p>2 Q And that's what the view of the</p> <p>3 market was with respect to forward rates on</p> <p>4 the rejection date, correct?</p> <p>5 A Yes.</p> <p>6 Q Then you have put on the same</p> <p>7 graph the observed data or months and years</p> <p>8 after the rejection date, correct?</p> <p>9 A Sure.</p> <p>10 Q But sitting here, you can't</p> <p>11 tell me what's going to happen to that red</p> <p>12 curve tomorrow or three months from now or</p> <p>13 a year from now?</p> <p>14 A Absolutely agree.</p> <p>15 Q Or 23 years from now. And --</p> <p>16 MR. TAMBE: I think we can</p> <p>17 break for lunch now.</p> <p>18 MR. LAWRENCE: Want to break</p> <p>19 for lunch --</p> <p>20 (There was a discussion off the</p> <p>21 record.)</p> <p>22 (A lunch recess was taken.)</p> <p>23 Q Just going back to the expected</p> <p>24 maturity date discussion we had</p> <p>25 previously --</p>	<p>1 Jeffrey Hasterok</p> <p>2 shorthand phrasing is "par break."</p> <p>3 Q Okay. All right.</p> <p>4 A And it's not just one single</p> <p>5 turbo redemption. It would be enough that</p> <p>6 the balance of the bond deal drops so that</p> <p>7 there's only about 45 million outstanding.</p> <p>8 And then they can -- then they close the</p> <p>9 bond deal out at that point.</p> <p>10 Q All right. Let's go back to</p> <p>11 the grid.</p> <p>12 A Page 19.</p> <p>13 Q Yes. Now, we discussed the</p> <p>14 grid previously. I think you told us that</p> <p>15 you have -- the data that was used to</p> <p>16 calculate the grid was provided to us in an</p> <p>17 Excel spreadsheet; is that right?</p> <p>18 A Yes.</p> <p>19 Q Okay. So one of the things</p> <p>20 that we are going to mark is we are going</p> <p>21 to mark a printout of that Excel</p> <p>22 spreadsheet. And then we have available in</p> <p>23 the room a projector and a screen, so we</p> <p>24 can look at the spreadsheet in its native</p> <p>25 format.</p>
Page 146	Page 148
<p>1 Jeffrey Hasterok</p> <p>2 A Sure.</p> <p>3 Q -- if the RFA had remained in</p> <p>4 place and there was a turbo redemption,</p> <p>5 would there have been any termination</p> <p>6 amount payable under the RFA?</p> <p>7 A Only to the point where there</p> <p>8 were enough turbos where the balance of the</p> <p>9 bond deal was less than or equal to the --</p> <p>10 the -- there's a few accounts, one of</p> <p>11 them -- the biggest one being the RFA, so,</p> <p>12 yes.</p> <p>13 Q Okay. So it's your</p> <p>14 understanding that, if there is a turbo</p> <p>15 redemption and the RFA is still in place,</p> <p>16 it has not been rejected or terminated?</p> <p>17 A Sure. We're assuming Lehman is</p> <p>18 a going concern.</p> <p>19 Q Lehman is a going concern.</p> <p>20 A Right, right.</p> <p>21 Q That there would be a</p> <p>22 termination payment due and owing?</p> <p>23 A No.</p> <p>24 Q Okay.</p> <p>25 A No, no, no. It's -- the</p>	<p>1 Jeffrey Hasterok</p> <p>2 A Got it. The spreadsheet was</p> <p>3 not designed to be to be printer-friendly.</p> <p>4 That was never the intention of it.</p> <p>5 (Exhibit No. Lehman 34,</p> <p>6 Document, Bates No. TSA-042447, Front</p> <p>7 Page of 129-page Printout of</p> <p>8 Spreadsheet, is marked by the reporter</p> <p>9 for identification.)</p> <p>10 Q While the spreadsheet is not</p> <p>11 designed to be printer-friendly, electronic</p> <p>12 spreadsheets are not deposition-friendly.</p> <p>13 A Okay. Got it.</p> <p>14 Q Because we are trying to keep</p> <p>15 of record of what it is that you are</p> <p>16 looking at when you testify --</p> <p>17 A Yes.</p> <p>18 Q -- and make sure that at some</p> <p>19 later date there is no confusion about what</p> <p>20 the document is that you are testifying</p> <p>21 about.</p> <p>22 Now, if you look at</p> <p>23 Exhibit 34 -- and I will tell you what that</p> <p>24 is. That is a printout of all of the</p> <p>25 worksheets in the spreadsheet that you</p>

37 (Pages 145 to 148)

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<p>1 Jeffrey Hasterok 2 provided to us. 3 A Got it. 4 Q Okay. And what we have done is 5 added at the top of each page a descriptor 6 of the tab in your spreadsheet. 7 A Yep, understood. 8 Q And there is a sequential 9 numbering at the bottom, one of 129, total 10 of 129 pages in this printed document. 11 A Got it. 12 Q Okay. The first thing that I 13 would like to do is pull up the 14 spreadsheet, the electronic spreadsheet on 15 the screen. And you can take a look at the 16 tabs and the file name and et cetera and 17 confirm that that's, in fact, the 18 spreadsheet -- 19 A That appears to be it. 20 Q -- that you provided. 21 Okay. And one of the first 22 things we are going to do is we're just 23 going to walk through what the tabs are at 24 the bottom of the spreadsheet? 25 A Sure.</p>	<p>1 Jeffrey Hasterok 2 to I-3, that should then tell you the 3 relevant termination amount given a variety 4 of different assumed maturity dates. 5 Q Okay. And what you just 6 described, cells F-2 through I-3, there are 7 four different maturity dates and four 8 different amounts, correct? 9 A Yes, and they transcribe to 10 what you see in the grid. 11 Q Okay. And the amounts which 12 are in line three, columns F through I, 13 those are totals of more detailed cash flow 14 calculations done in this tab of the 15 spreadsheet? 16 A Precisely. 17 Q Okay. Now, I assume, if we 18 went over to C-4 and changed the assumption 19 about the replacement rate, the spreadsheet 20 would recalculate those numbers and 21 repopulate all of those numbers? 22 A Exactly. So if you want to try 23 to put in point 89 or 0.89 percent -- 24 Q Yeah. 25 A -- and it should spit out</p>
Page 150	Page 152
<p>1 Jeffrey Hasterok 2 Q Starting from left to right, if 3 you can read out the tab and then describe 4 what the tab is. 5 A Sure. So the first tab is 25 6 March 2009, just meaning that that is the 7 rejection date and the date that we are 8 using to calculate the termination amount 9 as of. 10 It has, I would say, a set of 11 inputs in blue at the top left, the 12 guaranteed rate on the existing RFA, a 13 replacement rate, the dollar amount, and so 14 on. 15 The way that we use this is to 16 type in the various replacement rates from 17 the -- from the matrix; so we separately 18 calculated these different replacement 19 yields on page 19 of the report. 20 Q Yes. 21 A So, for example, we would have 22 calculated 89 basis points for the first 23 one for CP. We would have then entered in 24 cell C-4 of that first tab the relevant 25 replacement yield, and then in cells F-2,</p>	<p>1 Jeffrey Hasterok 2 numbers that match that first line in page 3 19 of the matrix. 4 Q Okay. So we just did that. We 5 just put in 0.89 in cell C-4. And it's now 6 calculated new numbers for F-3 through I-3. 7 Do you see that? 8 A Yes. 9 Q Okay. 10 A And it appears to match what we 11 have in the matrix, in the report itself. 12 Q Okay. All right. So we will 13 go back to the way it was produced with 14 0.65 in it. 15 All right. And then right 16 below the area we were discussing, so B-8 17 through C-15 -- 18 A Yes. 19 Q -- that's your calculation of 20 the failed delivery for the first period; 21 is that correct? 22 A That is correct. So as of 23 December 1st, that's when Lehman was 24 supposed to send them paper. They did not. 25 That's when they went into an alternative</p>

38 (Pages 149 to 152)

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<p>1 Jeffrey Hasterok 2 investment at that point. 3 So it's essentially an unpaid 4 amount, to use -- to borrow an ISDA term. 5 Basically, how much did they 6 lose prior to the termination date, and how 7 much did they lose prior to the termination 8 date is not duplicative. It's not twice 9 counted in the calculation. 10 Q All right. Then if we can roll 11 down to row 15, and then scroll across 12 through to H-15. And that's simply a sum 13 of the guaranteed interest column; is that 14 right? 15 A Right. 16 Q Okay. If we scroll over two 17 more to J-15, that is the sum of the 18 replacement interest calculated at the 19 replacement rate, correct? 20 A Correct. 21 Q The next column over, K, you 22 calculated the differential between those 23 two sums, right? 24 A Correct. 25 Q And then we go over three more</p>	<p>1 Jeffrey Hasterok 2 A Because, in our minds, the 3 replacement strategy that TSA is following 4 for all but the -- all but the last 5 scenario where we are using the swaption 6 and the cancellable swap strategy, all the 7 other cases are more similar to actually 8 buying a security. 9 And, for example, if you buy a 10 simple financial instrument like a Treasury 11 bond, the market convention when purchasing 12 such an instrument is to use the 13 acquisition yield or the yield at which you 14 buy that particular instrument as the 15 discount factor in the price formula. 16 There is agreement and 17 convention in the market; there is one 18 formula in how everybody calculates the 19 price of a Treasury bond. And that formula 20 uses whatever yield of the security as the 21 discount rate. So we are parroting that 22 type of methodology. 23 Q Okay. All right. Let's scroll 24 over to the next tab in the spreadsheet. 25 A Sure.</p>
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<p>1 Jeffrey Hasterok 2 columns to column N; and, now, you have 3 taken the present value of those sums, is 4 that right, the differential of those sums? 5 A Right, present value of the 6 differential, right. 7 Q And you have used as your 8 discount rate the same rate that you use as 9 your replacement rate; is that right? 10 A Yes. 11 Q In fact, if we can go to C-5, 12 it's -- it's coded that way, correct? 13 A Yes. 14 Q It's coded that, no matter what 15 replacement rate you pick, that will in 16 your spreadsheet be exactly the same as the 17 discount rate? 18 A That is correct. 19 Q Okay. What is the basis for 20 that methodology, which is, no matter what 21 replacement rate you use, you use the very 22 same number as the discount rate? 23 A So why did we choose the same 24 number? 25 Q Yes.</p>	<p>1 Jeffrey Hasterok 2 Q And if you could, again, 3 describe for the record what that tab is, 4 and then we can go with it. 5 A Sure. So this has the name 6 that really rolls off the tongue: 7 "25 March 2009 underscore 8 actual plus 2013 OS prog" -- "projected" is 9 what that means, p-r-o-g. 10 So this is essentially the 11 exact same as the prior tab. They are 12 essentially carbon copies of each other. 13 The difference here is that, in this 14 particular scenario, which is on page 19 of 15 the report, "actual yield plus 2013 plus OS 16 projected," in this particular scenario, we 17 didn't have a single yield that is the 18 replacement rate. 19 It moves around a little bit. 20 It starts out with using their actual 21 reinvestment history. It then flips to -- 22 if you scroll down a little bit, if you 23 wouldn't mind, right, a little bit more. I 24 think I have got -- I have got the windows 25 frozen.</p>

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1 Jeffrey Hasterok
2 But as you can see in column I,
3 in like cell I-35, for example, you can
4 see -- it jumped back up; it jumped back up
5 to row 19. So scroll down a little bit.
6 Right. Stop. That's perfect.
7 So you can see that suddenly in
8 cell I-29, the replacement rate drops to
9 three basis points. Where did we get that?
10 We got that from the 2013 OS,
11 which, as we talked about before, describes
12 an assumption that they made when they
13 issued those bonds that said:
14 "Beginning in 2013, we are
15 going to assume a rate of three basis
16 points. And over the course of X number of
17 years" -- I believe it goes out to 2018,
18 2019 -- scroll down; you can see -- not
19 that far -- and one more, right there.
20 Okay. So there. Okay. In
21 2018, by that point, the bond deal assumes
22 that they will start earning 75 basis
23 points. And then that goes on forever.
24 So because it's not just one
25 number that fills in every single cell in

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1 Jeffrey Hasterok
2 this particular scenario, we created the
3 separate tab just to handle this scenario.
4 So it was a little -- a little more unique.
5 That's why we did it that way. But all the
6 other cells work the same way.
7 Q What is your understanding of
8 how those numbers, which appear in your
9 replacement rate column, which you say come
10 from the 2013 OS --
11 A Yes.
12 Q How were those numbers arrived
13 at?
14 A We do not know.
15 Q Do you know who derived those
16 numbers?
17 A We do not know. I do not know.
18 Q Now, if you can just go down
19 to -- let's just pick a row like row 37.
20 Okay. Row 37 is a calculation
21 for deposit date of December 2017. Do you
22 see that?
23 A Let me -- I apologize. Let me
24 correct myself.
25 The language in the OS isn't

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1 Jeffrey Hasterok
2 specific about every single year from 2013
3 to 2018. It just says 2013 it's three
4 basis points. By the time we get to 2018,
5 its 75.
6 So, yes, I did calculate
7 between those two dates. I just used
8 actually an Excel feature. I think it's
9 for the "fill" feature. But you give it
10 this starting and -- this starting cell,
11 this ending cell.
12 So the starting cell is three
13 basis points. The ending cell is 75. And
14 you say fill it in, so that it's an equal
15 jump between the two.
16 Q Okay.
17 A So if you were to graph that,
18 it would look like a straight line between
19 3 to 75, and then straight over. So I
20 forgot to say that.
21 That element, we did -- I did
22 myself. It seemed rational to just do a
23 straight line between the two points. I
24 did not verify that with anybody from the
25 TSA or the banking team. We just made an

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1 Jeffrey Hasterok
2 assumption.
3 Q Okay. So, again, the starting
4 point for this analysis is the 2013 OS,
5 correct?
6 A Yes.
7 Q And you make some assumptions
8 and some calculations based on the 2013 OS
9 to fill in your replacement rate column?
10 A That's correct.
11 Q Okay. You didn't consult any
12 forward curves when you were putting
13 together that replacement rate column other
14 than what you saw in the OS, correct?
15 A Right. We didn't look at a
16 traded long-dated market, for example. So
17 forward curves, we were projecting this
18 rate into the future. If you want to call
19 that a "forward curve," okay, but we took
20 it straight from the OS and said:
21 "They are saying it's going to
22 be 75 past 2018, so let's just use it and
23 see -- and see what the number looks like."
24 Q All right. And then if I
25 understand your methodology -- I want to

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<p>1 Jeffrey Hasterok</p> <p>2 make sure I do. If we can roll over a few</p> <p>3 more columns to the right, okay, let's just</p> <p>4 stop right there.</p> <p>5 So looking at that</p> <p>6 December 2017 row, row 37, you have got a</p> <p>7 replacement rate of 51 basis points --</p> <p>8 61 basis points; is that right?</p> <p>9 A Yes.</p> <p>10 Q And you have used a discount</p> <p>11 rate of 61 basis points as well?</p> <p>12 A That -- correct.</p> <p>13 Q Okay. And, again, what's</p> <p>14 your -- what's your rationale for using the</p> <p>15 same discount rate there as the replacement</p> <p>16 rate for that period in 2017?</p> <p>17 A Same as the first tab where</p> <p>18 it's more mimicking the convention you</p> <p>19 would use when you make a security</p> <p>20 purchase, a fixed income security purchase.</p> <p>21 Q If you look in your report,</p> <p>22 Exhibit 30, page 17.</p> <p>23 A Sorry, page 17. Yes, go ahead.</p> <p>24 Q All right. You have got two</p> <p>25 boxes on that page.</p>	<p>1 Jeffrey Hasterok</p> <p>2 three basis points for several years into</p> <p>3 the future?</p> <p>4 A I think that the current yield,</p> <p>5 as of the time they did the refunding deal,</p> <p>6 the TSA was earning approximately three</p> <p>7 basis points. The money market funds that</p> <p>8 they were investing in are earning quite</p> <p>9 low, lower than 18.</p> <p>10 The 18 is an average that I</p> <p>11 backed into that number because the</p> <p>12 dollar -- the number that the TSA gave me</p> <p>13 was the dollar amount. They said:</p> <p>14 "We earned \$400,774," so they</p> <p>15 didn't say, "We earned 18-basis points."</p> <p>16 So I backed into that number.</p> <p>17 Right. It was -- that's just -- that's</p> <p>18 just a formula saying, "Start date, end</p> <p>19 date, this discount convention," that</p> <p>20 equates to the equivalence of 18 basis</p> <p>21 points.</p> <p>22 Q Let's go back to the tabs. The</p> <p>23 next tab over is "final maturity chart."</p> <p>24 A Yes.</p> <p>25 Q And, again, if you just</p>
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<p>1 Jeffrey Hasterok</p> <p>2 A Yes.</p> <p>3 Q The lower box, which has the</p> <p>4 start date, end date, do you see that?</p> <p>5 A Yes.</p> <p>6 Q All right. For the second line</p> <p>7 there, which is December 2008 to</p> <p>8 September 2013, do you see that?</p> <p>9 A I do.</p> <p>10 Q Right. In the -- in the</p> <p>11 right-hand column, "actual yield earned" --</p> <p>12 A Yes.</p> <p>13 Q -- it says 0.18 percent?</p> <p>14 A Yes.</p> <p>15 Q That's 18 basis points?</p> <p>16 A Correct.</p> <p>17 Q What you are showing there is</p> <p>18 what was the yield actually earned by the</p> <p>19 TSA through September 2013, between</p> <p>20 December 2008 and September 2013?</p> <p>21 A Correct.</p> <p>22 Q Can you reconcile that</p> <p>23 observation with the OS statement, the 2013</p> <p>24 OS statement, that says the replacement</p> <p>25 yield is three basis points and will be</p>	<p>1 Jeffrey Hasterok</p> <p>2 describe what that tab is in the</p> <p>3 spreadsheet.</p> <p>4 A Sure.</p> <p>5 Q And where the data comes from.</p> <p>6 A Sure. Sure. So the columns B,</p> <p>7 C, and D are the basis of the chart you see</p> <p>8 next to it. The chart is an X/Y scatter</p> <p>9 graph. The dates in column B are from page</p> <p>10 ten of the report, so those dates should</p> <p>11 line up.</p> <p>12 So the assumption date is the</p> <p>13 date at which we found some documents that</p> <p>14 showed a calculated guess as to what the</p> <p>15 new maturity date of the bonds might be.</p> <p>16 So, for example, the first one is from the</p> <p>17 original OS, which is dated as in October</p> <p>18 of 2002.</p> <p>19 The OS itself said:</p> <p>20 "We think the bonds are going</p> <p>21 to retire in 2019.</p> <p>22 Okay. And then so on.</p> <p>23 And then -- so the -- up to --</p> <p>24 from cell B-6 to C-11, that range, B-6 to</p> <p>25 C-11, those should line up with documents</p>

41 (Pages 161 to 164)

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<p>1 Jeffrey Hasterok</p> <p>2 we found either -- I think most of these</p> <p>3 came from board minutes or TSA minutes or</p> <p>4 reports from Barclay's, which is one of</p> <p>5 their underwriters. So those are -- those</p> <p>6 are -- that's where those data points came</p> <p>7 from.</p> <p>8 Then the next three data</p> <p>9 points, from -- right -- cell B-12 to cell</p> <p>10 D-14, those three numbers, especially in</p> <p>11 the D column, are calculated estimates of</p> <p>12 what the expected maturity date of the</p> <p>13 bonds will be in the future assuming they</p> <p>14 continue to follow a linear path between --</p> <p>15 as extended beyond the original data</p> <p>16 points.</p> <p>17 So you are taking a set of data</p> <p>18 from the past. And when I mean "past," I</p> <p>19 mean prior to the date of the report. You</p> <p>20 take those data points, and you draw a</p> <p>21 straight line through them. You perform a</p> <p>22 linear regression.</p> <p>23 You draw a straight line</p> <p>24 through them, and you try to fit it as best</p> <p>25 you can. You -- obviously, you let Excel</p>	<p>1 Jeffrey Hasterok</p> <p>2 things, it's Y equals the slope times X</p> <p>3 plus some fixed number, the intercept.</p> <p>4 Q In other words, the slope is</p> <p>5 the -- what, the steepness of the curve?</p> <p>6 A Exactly.</p> <p>7 Q The line?</p> <p>8 A Exactly.</p> <p>9 Q And the intercept is what,</p> <p>10 where that line intercepts the vertical</p> <p>11 axis?</p> <p>12 A Exactly.</p> <p>13 Q What does that entry B-19 mean?</p> <p>14 It's 1954.23?</p> <p>15 A That would mean that at -- that</p> <p>16 would mean at year zero, the bond is</p> <p>17 worth -- I mean, it's a nonsensical result</p> <p>18 if you go that far left.</p> <p>19 But it means that, at year</p> <p>20 zero, the bond would have retired in the</p> <p>21 year 1954.</p> <p>22 Q I guess I am trying to figure</p> <p>23 out year zero -- year zero on the</p> <p>24 horizontal axis.</p> <p>25 A Year zero on the horizontal</p>
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<p>1 Jeffrey Hasterok</p> <p>2 do this for you. You don't do it by hand.</p> <p>3 You fit that line to those blue</p> <p>4 dots. And then the red dots are on that</p> <p>5 line extended out in the future.</p> <p>6 So what you are basically</p> <p>7 saying is:</p> <p>8 "If we follow the same</p> <p>9 approximate part as we have in the future,</p> <p>10 on given dates in the future, this is what</p> <p>11 the new termination date of the bonds</p> <p>12 should be projected to be."</p> <p>13 And they -- those -- those</p> <p>14 projected dates come from the cells in A-18</p> <p>15 to B-20. And those are simply just inputs</p> <p>16 in a linear regression analysis.</p> <p>17 It's -- "R squared" is the R --</p> <p>18 that cell that you are looking at,</p> <p>19 "R squared" is a "goodness of fit" measure.</p> <p>20 It's -- the closer to 100 percent -- if it</p> <p>21 was 100 percent, that means every single</p> <p>22 data point you have is exactly on the line.</p> <p>23 And then "slope" and</p> <p>24 "intercept" are again your basic -- you</p> <p>25 know, if you remember high school trig and</p>	<p>1 Jeffrey Hasterok</p> <p>2 axis. The horizontal is the X variable.</p> <p>3 Q And you said this was sort of a</p> <p>4 linear regression analysis, correct?</p> <p>5 A Yes, sir. Right.</p> <p>6 Q Did you have the option of</p> <p>7 taking some other type of regression</p> <p>8 analysis other than the linear one?</p> <p>9 A You always do. You can do --</p> <p>10 there's a variety of ways to fit a curve or</p> <p>11 a function to a set of data. I think I</p> <p>12 would assert that linear is probably the</p> <p>13 most common, but, yes, there are many ways</p> <p>14 to do it.</p> <p>15 Q And I guess, as the name</p> <p>16 suggests, the linear regression analysis is</p> <p>17 going to give you the best straight line</p> <p>18 answer?</p> <p>19 A Exactly.</p> <p>20 Q It's not going to yield a</p> <p>21 curve?</p> <p>22 A Right. Well, a straight line</p> <p>23 is, I think, technically a curve.</p> <p>24 Q With a flat curve.</p> <p>25 A But, I -- yes, we agree with</p>

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<p>1 Jeffrey Hasterok 2 each other, yes. 3 Q Okay. The other thing we had 4 talked about is the definition of what is 5 the "past projection." 6 So if we -- if we, in fact, use 7 this model and say that the only past 8 projections that you would consider are the 9 projections that were in the past as of the 10 early termination date, you would have only 11 looked at lines six and seven, correct? 12 A Yes. 13 Q Okay. And what would happen in 14 this spreadsheet if that's what you did, if 15 you sort of zeroed out eight, nine, ten, 16 and eleven, would you get a result? 17 A You would have a horizontal 18 line that would be 2019 forever. 19 Q Okay. And, in fact, would your 20 model do that if we do it now? 21 A You can try. Go right ahead. 22 I mean, or just delete it. Try deleting 23 them, you know. 24 Yes, there it is, in cell B-19. 25 Q All right. Okay. So, now,</p>	<p>1 Jeffrey Hasterok 2 As you can see, it's monthly 3 data. It's not daily data. For the 4 purposes of the report, that granularity 5 was enough. We didn't feel that this 6 was -- we didn't feel like we had to go the 7 extra step and really find daily data. And 8 there are differences between where Fannie 9 and Freddie auction securities and versus 10 where they trade in the secondary market. 11 They are not exactly the same. 12 But we found the raw data, and 13 then, I believe, over in the farther right 14 columns, I am -- I am taking the Freddie 15 data and using what's called a "pivot 16 table" to line it up with the Fannie Mae 17 data; so they are both monthly data points 18 with the same months so that they line of 19 up. 20 And then I just average the two 21 in column M; and then, finally, in column 22 N, I am eye-balling month-to-month how wide 23 of a difference is it between Fannie and 24 Freddie. 25 Are they -- do they generally</p>
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<p>1 Jeffrey Hasterok 2 when you zero out the post early 3 termination date observations, what your 4 model predicts is an early redemption date 5 of 2019 straight flat line? 6 A Yep, if that's your only two 7 data points. 8 Q All right. So I think we can 9 reset it back to where it was. All right. 10 Let's go to the next tab. 11 All right. I am trying to -- 12 if you can explain what appears on this 13 spreadsheet. 14 A Yes, this is called 15 "FNMA-FHLMC," so Fannie and Freddie, okay. 16 And this was our attempt to hunt down some 17 times series data on Fannie and Freddie 18 discount notes and their yields over time. 19 Fannie and Freddie both auction 20 securities to the public similar to the 21 Treasury. And so they maintain data 22 related to these auctions. I believe I 23 gave you the links in the appendix to 24 their -- to their home pages, to their web 25 site where the data comes from.</p>	<p>1 Jeffrey Hasterok 2 move in lock-step, or are some -- are there 3 some cases where Fannie is trading far 4 cheaper than Freddie? That was just kind 5 of a double-check on the data. That was an 6 eyeball. We are just eyeballing the data 7 for data integrity purposes. 8 Q And, generally, the entries in 9 that column, the column "N" as in 10 "Nancy" -- 11 A Yes. 12 Q -- for the most part, not 13 across the board, but for the most part are 14 in the hundredths of decimal places. 15 Occasionally, you have, you know 0.15, 16 0.17. 17 A Sure. 18 Q And so what impact does that 19 have on your eyeball test? 20 A Nothing that was -- that felt 21 rational -- 22 Q Okay. 23 A -- that, occasionally, they are 24 going to trade different than each other, 25 could be the timing of when Fannie did an</p>

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<p>1 Jeffrey Hasterok</p> <p>2 auction versus when Freddie did it and</p> <p>3 rates move around month-to-month.</p> <p>4 So that's all. We were just</p> <p>5 trying to get an estimate of approximately</p> <p>6 what agency discount notes look like over</p> <p>7 time.</p> <p>8 Q And if I understand your</p> <p>9 description correctly, what your eyeball</p> <p>10 test confirmed was that they generally tend</p> <p>11 to move together?</p> <p>12 A Correct.</p> <p>13 Q And variations are slight?</p> <p>14 A Yes.</p> <p>15 Q All right. And, now, there was</p> <p>16 a time period -- now, you have looked at a</p> <p>17 time period starting in October of 2002 all</p> <p>18 the way through to -- it appears to be</p> <p>19 November or December of 2013?</p> <p>20 A Yes.</p> <p>21 Q Is that -- do you see that?</p> <p>22 A Yes.</p> <p>23 Q Okay. All right, now, also on</p> <p>24 this spreadsheet, if you go to the top of</p> <p>25 the spreadsheet in rows four and five over</p>	<p>1 Jeffrey Hasterok</p> <p>2 next row down -- again, go to the top of</p> <p>3 the spreadsheet --</p> <p>4 A There we go.</p> <p>5 Q Row five.</p> <p>6 A So look at cell M-5, so it</p> <p>7 goes -- so 85 to 139.</p> <p>8 Q And that's an average that you</p> <p>9 have run from December of 2008 through --</p> <p>10 it looks like -- June of 2013?</p> <p>11 A Yes. And I think -- yeah, I</p> <p>12 think the reason why we stopped at June --</p> <p>13 why did we stop at June?</p> <p>14 You know, it might have been --</p> <p>15 I have to check my -- I have to check all</p> <p>16 the data. But it may have been that -- I</p> <p>17 think one of these data sets, the CDs or</p> <p>18 the CP, I think, stopped in June.</p> <p>19 So for consistency's sake,</p> <p>20 we -- even though we had more data than</p> <p>21 June, we purposely stopped at June because</p> <p>22 it lined up with one of the other data sets</p> <p>23 that didn't go all the way to December, if</p> <p>24 that makes sense. We will probably see it</p> <p>25 in one of the next -- one of the next tabs.</p>
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<p>1 Jeffrey Hasterok</p> <p>2 at the right, in columns M, N, and O, it</p> <p>3 looks like you have gotten some average</p> <p>4 calculations, correct?</p> <p>5 A Yes.</p> <p>6 Q So we have highlighted row</p> <p>7 four, column M; and there is a formula in</p> <p>8 that cell. It's the average of entries in</p> <p>9 a particular column; is that right?</p> <p>10 A Yes, they should -- those cells</p> <p>11 M-85 to M-88, if you scroll down to those</p> <p>12 cells, should correspond to December of '08</p> <p>13 to March of '09. So I hope I did it right.</p> <p>14 No, don't go over that far. It</p> <p>15 should be -- look at the "pivot table"</p> <p>16 dates. That's what you want, so -- and --</p> <p>17 Q 85 to 88. Okay.</p> <p>18 A So it looks like it's lining up</p> <p>19 correctly.</p> <p>20 Q So what you are doing is the</p> <p>21 average there of the items -- of the</p> <p>22 numbers that appear for that three-month</p> <p>23 period?</p> <p>24 A Yes, sir.</p> <p>25 Q And then, similarly, on the</p>	<p>1 Jeffrey Hasterok</p> <p>2 Q Give me one moment.</p> <p>3 All right. Now, the averages</p> <p>4 that you have in column M-4 and -5?</p> <p>5 A Yes.</p> <p>6 Q That 0.54 and 0.21.</p> <p>7 A Yes.</p> <p>8 Q Those are, in fact, numbers</p> <p>9 that end up in your grid, correct?</p> <p>10 A Exactly.</p> <p>11 Q All right. So they end in your</p> <p>12 grid on page 19 of your expert report?</p> <p>13 A Right. So you take those two</p> <p>14 numbers; you go back to the first tab, the</p> <p>15 March '09 tab. You punch those numbers in.</p> <p>16 And then in -- as we talked about in cells</p> <p>17 F-2 to I-3, it will spit out the</p> <p>18 termination amounts relevant for that</p> <p>19 particular replacement yield.</p> <p>20 Q Okay. All right. I think we</p> <p>21 will probably go over to the next --</p> <p>22 A Okay. The next data is called</p> <p>23 "H-15 data." H-15 is one of the data</p> <p>24 reports that the Fed puts out. And the Fed</p> <p>25 keeps track of a whole host of different</p>

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<p>1 Jeffrey Hasterok</p> <p>2 financial rates and yields and such. And</p> <p>3 so these data points are straight from the</p> <p>4 Fed report.</p> <p>5 Q Okay.</p> <p>6 A So if you go to</p> <p>7 "FederalReserve.gov," you should be able to</p> <p>8 recreate these numbers. It works in</p> <p>9 concert with the next tab, "H-15 pivot."</p> <p>10 They are complementary. The pivot</p> <p>11 basically makes things into dates that line</p> <p>12 up properly so that everything lines up</p> <p>13 cleanly.</p> <p>14 Q All right. So let's -- then</p> <p>15 let's spend some time on the pivot tab, the</p> <p>16 H-15 pivot tab, right.</p> <p>17 Again, at the top of at that</p> <p>18 spreadsheet, you have got, I guess, a</p> <p>19 couple of summary rows, correct?</p> <p>20 A Um-hum.</p> <p>21 Q You have got your three-month</p> <p>22 average, and then you have got the roughly</p> <p>23 four-year average, right?</p> <p>24 A Yes. Yes, four-month and four</p> <p>25 or five -- four years, yes, sure.</p>	<p>1 Jeffrey Hasterok</p> <p>2 into the future; you hold them constant --</p> <p>3 A Yes.</p> <p>4 Q -- for the next however many</p> <p>5 years until --</p> <p>6 A Yes.</p> <p>7 Q -- until 2032, correct?</p> <p>8 A Yes.</p> <p>9 Q Did you do any kind of</p> <p>10 statistical analysis to see whether a</p> <p>11 three-month sampling of rates or a</p> <p>12 four-year sampling of rates was a good</p> <p>13 predictor of what future rates would be?</p> <p>14 A No. You can certainly just</p> <p>15 scroll through the data and look at the</p> <p>16 fact that, depending on -- and we make this</p> <p>17 comment. We do say, depending on what</p> <p>18 range you pick, data range you pick -- do</p> <p>19 you pick five years of data, ten,</p> <p>20 one month -- whatever you happen to pick --</p> <p>21 you are going to get at very different</p> <p>22 number.</p> <p>23 So did we do a specific</p> <p>24 analysis that says, "Four months of data is</p> <p>25 the best predictor of future results," we</p>
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<p>1 Jeffrey Hasterok</p> <p>2 Q So the first one, the</p> <p>3 December '08 through March '09 average in</p> <p>4 column D-3, you show 1.25; and column E-3</p> <p>5 is 0.89.</p> <p>6 What's the difference between</p> <p>7 those two?</p> <p>8 A So D-3 is talking about</p> <p>9 certificate of deposit rates, and cell E-3</p> <p>10 is commercial paper rates, financial,</p> <p>11 three-month commercial paper rates.</p> <p>12 Q Again, if we were to try to map</p> <p>13 those numbers over onto your grid, do those</p> <p>14 numbers map onto your grid?</p> <p>15 A They should. So 125 in cell</p> <p>16 D-3, you see under "certificates of</p> <p>17 deposit," "replacement yield," so 125 and</p> <p>18 37; you see those two yields. And then</p> <p>19 they line up with the averages, so that</p> <p>20 they go straight into the grid.</p> <p>21 Q All right. And if I understand</p> <p>22 what you are doing in the grid then with</p> <p>23 these numbers is you will -- depending on</p> <p>24 the row, you will hold the 89 basis points</p> <p>25 or the 125 basis points; you project them</p>	<p>1 Jeffrey Hasterok</p> <p>2 did not do that analysis.</p> <p>3 We used those two ranges</p> <p>4 because, number one, it's from the first</p> <p>5 failed delivery when they actually had the</p> <p>6 first -- finally started looking at</p> <p>7 alternative reinvestment products, up to</p> <p>8 two points, the first being the rejection</p> <p>9 date. So that's a logical date to look at.</p> <p>10 And then we felt like:</p> <p>11 "Well, yes, we were -- we can</p> <p>12 stop at the rejection date, but let's also</p> <p>13 look at, well, we have real data from how</p> <p>14 much they have earned all the way up to</p> <p>15 almost to today."</p> <p>16 So although it says June,</p> <p>17 ideally, we would have gone to, you know,</p> <p>18 December 16th, if possible. That says June</p> <p>19 because of a limitation in the data that</p> <p>20 was available to us.</p> <p>21 I believe, if you scroll all</p> <p>22 the way down, it might stop in June.</p> <p>23 Q As a --</p> <p>24 A There -- so, there, that's why.</p> <p>25 It's the CD data that we said:</p>

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<p>1 Jeffrey Hasterok 2 "Okay. Well, if CDs end in 3 June, let's just do CP, CDs, and Fannies 4 all till June." 5 And so that they are all the 6 same kind of range. But, as you can tell, 7 even if we had gone a little bit further in 8 CP, the result wouldn't have been all that 9 different. 10 Q I think you said you did not do 11 a specific analysis that says four months 12 of data is the best predictor of future 13 results? 14 A Correct. 15 Q You did not do that analysis? 16 A No. 17 Q Did you do any kind of analysis 18 to see whether it is even a decent 19 predictor of rates? 20 A We did not do any analysis of 21 that type. 22 Q Okay. So as you sit here 23 today, you can provide no opinion as to 24 whether using a four-month window or using 25 a four-year window is a good fit or a</p>	<p>1 Jeffrey Hasterok 2 A I don't remember. We may have. 3 I don't remember exactly; but you can -- I 4 mean, you can eyeball -- you can clearly 5 see, if you go back to '08, you know, rates 6 were higher. 7 Q Yes. 8 A So I don't even have to do the 9 math. If we go back to 2002 and you do an 10 average all the way up to today -- 11 Q Yes. 12 A -- "today" being June of -- you 13 know what I mean. 14 But if you take the entire data 15 set and average it, the rate is going to be 16 higher. 17 Q So let's just see how much 18 higher. 19 A Yes, sure, go ahead -- can you 20 do -- you want to -- 21 Q So just one second. Let's take 22 it a step at a time. 23 A All right. 24 Q So October of 2002 was row 25 eight, correct?</p>
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<p>1 Jeffrey Hasterok 2 decent fit in terms of projecting rates 3 forward? 4 A Well, I can tell you that, as I 5 said before, depending on the date range, 6 you pick, you are probably going to get 7 very different answers, and -- but we did 8 not do a thorough investigation of 9 back-testing every possible range and how 10 that then fit to future results. We did 11 not do that. 12 Q Now, you had available and you 13 have collected in the spreadsheet data that 14 goes back to the beginning of the bonds, 15 correct, October of 2002? 16 A Yes. 17 Q And that's, if you look at 18 October of 2002 through March of 2009, 19 that's about a seven-year time period, more 20 than a seven-year time period? 21 A Seven, eight, something like 22 that. 23 Q Did you run an average analysis 24 for that time period and see what the rates 25 were over that longer period of time?</p>	<p>1 Jeffrey Hasterok 2 A Yep, right. 3 Q And let's roll down to -- 4 what's the row for March of 2009? 85. 5 That's the rejection date, correct? 6 A Um-hum. 7 Q Should we go to 85 or 86? 8 A It doesn't matter. 9 Q So let's go to 85, right. I 10 guess let's go back up to the top of that 11 spreadsheet. And to run the averages in 12 that period of time -- 13 A Put it in cell D-2, for 14 example. Go to D-2. So equal average -- 15 Q I think you have to spell it 16 out. 17 (There was a discussion off the 18 record.) 19 A Open paren -- nope, you've got 20 to type the word "average" or click it. 21 Open paren, D-8. No. 22 Q Just D-8 all together. 23 A D-8, right, what was it, 85? 24 Q 85. 25 A D-85, end paren, enter.</p>

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<p>1 Jeffrey Hasterok 2 Q So that gives you 3.12? 3 A And if you copy that formula 4 and paste it into -- 5 Q Control C. 6 A E-2. 7 Q Control D. 8 A There you go. 9 Q So if you ran your averages for 10 that seven-year time period, you end up 11 with figures of 3.12 and 3.09. Okay. And 12 I assume you could just put these numbers 13 into your very first spreadsheet and figure 14 out what kind of a termination amount it 15 gives you? 16 A Sure, sure, go ahead. 17 Type in 3 percent or whatever. 18 Q Replacement value. 19 A No, one cell down. Go to the 20 next one. There you go. 21 Q So what is it, three point -- 22 A 3.12, it doesn't matter -- 23 no -- 10 million for the -- it's about 10 24 million if you go all the way out to 2032. 25 Q Hold on. You've got to change</p>	<p>1 Jeffrey Hasterok 2 A Yes. 3 Q And we did your formulas, your 4 setup. We ran those averages, correct? 5 A Yes. 6 Q And we came up -- one of the 7 rates we came up with was 3.12 percent, 8 correct? 9 A Yes. 10 Q And we plugged that into your 11 cover spreadsheet with the same discount 12 rate as you said you would use. And what 13 that gives you is a range of numbers 14 between 5.38 and 10 million, correct? 15 A Yes. 16 Q Okay. 17 A 10 and 10.2 million, yes. 18 Q All right. So if you want to 19 go back to the spreadsheet the way it was. 20 Go back -- go back one more. 21 All right. Now, if you really 22 wanted to see what -- withdraw that. 23 You're projecting rates forward 24 not just seven years; you are projecting 25 rates forward 23 years, correct?</p>
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<p>1 Jeffrey Hasterok 2 the replacement rate to 3.12. You've got to 3 change the discount rate, correct? 4 A To 3.12. You just leave that 5 alone. Just leave that formula alone. 6 That should just be equal C-4. You don't 7 have to change cell 5, C-5. 8 So click on C-5 -- no, that -- 9 that one should just say "equal C-4" -- 10 yeah, there you go; you got it. 11 So it's about 10 million, give 12 or take. 13 Q Okay. And if you use the early 14 maturity date of 2019, you get a number 15 of -- 16 A Five and a half -- 17 (There was a discussion off the 18 record.) 19 Q So what we have done to do this 20 calculation, sir, is we went to your pivot 21 table, H-15 pivot; and, instead of running 22 a four-month average or a four-year 23 average, we did a seven-year average. You 24 went all the way back to October of 2002 25 through March of 2009, correct?</p>	<p>1 Jeffrey Hasterok 2 A Yes. 3 Q All right. So another option 4 you had was to go back and look at US 5 Treasury data, CD data, other types of 6 market data that went back for an equal 7 period of time -- 8 A Correct. 9 Q -- 10 years, 15 years, 20 10 years? 11 A We could have done that. 12 Q You may not have all of that 13 data, but Treasuries is available going 14 back, correct? 15 A Yes. 16 Q You didn't do that? 17 A We did not. 18 Q And you didn't do any kind of 19 analysis to see whether that type of a 20 time-period analysis would be a better fit 21 or a worse fit for projecting rates into 22 the future, correct? 23 A Correct. 24 Q And we talked earlier about 25 LIBOR rates. And I guess you could do an</p>

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<p>1 Jeffrey Hasterok</p> <p>2 analysis like this for LIBOR rates as well,</p> <p>3 to see what LIBOR rates were for the past</p> <p>4 seven years, past ten years, past</p> <p>5 fifteen years, past twenty years, right?</p> <p>6 A Well, when you say LIBOR rates,</p> <p>7 you can either do the reset itself,</p> <p>8 one-month, three-month LIBOR, that kind of</p> <p>9 thing, or the swap rates themselves. You</p> <p>10 could go back.</p> <p>11 You could go back in the '80s.</p> <p>12 I forget one IBM did the first swap with</p> <p>13 the World Bank. I don't remember, but,</p> <p>14 yes, you could go back thirty --</p> <p>15 Q You could go back longer</p> <p>16 periods of time?</p> <p>17 A Sure.</p> <p>18 Q Let's go back into the</p> <p>19 spreadsheet. I think that the last tab is</p> <p>20 "LIBOR forwards." Yes?</p> <p>21 A Yes.</p> <p>22 Q And that tab is simply the data</p> <p>23 and the graph that we discussed before in</p> <p>24 your expert report, correct?</p> <p>25 A Yes. It's equivalent to page</p>	<p>1 Jeffrey Hasterok</p> <p>2 trade. And if -- I don't know -- I don't</p> <p>3 know if you ever use software like this,</p> <p>4 but you can look at the individual --</p> <p>5 called -- they're called legs of the</p> <p>6 transaction.</p> <p>7 You can look at the projected</p> <p>8 cash flows of the fixed leg, meaning how</p> <p>9 much cash was going to go out the door or</p> <p>10 come in based on fixed rate.</p> <p>11 And then what we did was we</p> <p>12 looked at the floating leg. And swap</p> <p>13 software will show you the implied yields</p> <p>14 on three-month LIBOR or whatever the</p> <p>15 floating leg happens to be.</p> <p>16 Those yields are calculated by</p> <p>17 the software so that it would, on</p> <p>18 average -- if you average up all of those</p> <p>19 and average -- you can't -- you don't --</p> <p>20 you can't use this in Excel. You can't</p> <p>21 just say:</p> <p>22 "Well, average column B."</p> <p>23 It doesn't work that way</p> <p>24 because of discount factors and some other</p> <p>25 technical stuff.</p>
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<p>1 Jeffrey Hasterok</p> <p>2 14 of the report.</p> <p>3 Q Okay.</p> <p>4 A That's where that graph shows</p> <p>5 up.</p> <p>6 Q If you just go over to row --</p> <p>7 it looks like column B. Then --</p> <p>8 A Done.</p> <p>9 Q In column B, you look at the</p> <p>10 numbers that appear in column B, so B-2</p> <p>11 onwards, those are -- just looking at</p> <p>12 those, they seem to have been keyed in.</p> <p>13 They are hard-keyed in, right?</p> <p>14 A They are a dump from Bloomberg.</p> <p>15 They're an export of one of the legs of the</p> <p>16 trade from Bloomberg.</p> <p>17 Q So you took the data that</p> <p>18 appears in Bloomberg, and you took that</p> <p>19 data as of 25th March of 2009; is that</p> <p>20 right?</p> <p>21 A We modeled a vanilla --</p> <p>22 Q Yeah.</p> <p>23 A -- a plain -- a simple Li- --</p> <p>24 fixed rate versus three-month LIBOR swap</p> <p>25 that -- in US dollars. You model up that</p>	<p>1 Jeffrey Hasterok</p> <p>2 But it -- a shortcut way of</p> <p>3 thinking about it is, the average of all of</p> <p>4 those rates in column B will approximate</p> <p>5 the fixed rate on the swap. So we did not</p> <p>6 create -- we didn't, you know, come up with</p> <p>7 those numbers in column B ourselves. That</p> <p>8 is -- that is spit out from the Bloomberg</p> <p>9 swap model.</p> <p>10 And given the type of trade it</p> <p>11 is, a pure vanilla LIBOR swap, there are --</p> <p>12 there are multiple software packages that</p> <p>13 will spit out these types of numbers. They</p> <p>14 should be relatively similar for the</p> <p>15 purposes of this.</p> <p>16 Even if it's five or ten bps</p> <p>17 off, it doesn't really matter. That's</p> <p>18 not -- that kind of actually is not</p> <p>19 relevant for what we are trying to get at.</p> <p>20 MR. TAMBE: Let's take a short</p> <p>21 break now. I think we are done with</p> <p>22 the spreadsheet, but leave it open.</p> <p>23 But we will come back with some other</p> <p>24 questions. Thanks.</p> <p>25 (There was a discussion off the</p>

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<p>1 Jeffrey Hasterok 2 record.) 3 (A break is taken.) 4 Q I want to circle back to one 5 aspect of the grid. In the grid, on page 6 19 of Exhibit 30 -- we talked about this a 7 number of times -- you used the average 8 yield for that four-month time period, 9 December '08 through March of '09. 10 What are the reasons why you 11 did use that four-month period as opposed 12 to any of the other periods we have 13 discussed? 14 A It was the beginning of their 15 actual reinvestment of proceeds. Prior to 16 December 1st of '08, they didn't have to 17 think about reinvestment of proceeds 18 because every -- I believe it was every six 19 months -- there may have been cases before 20 where it was every three months; Lehman had 21 the right to do that. 22 But every six months, they were 23 buying paper. They didn't really have to 24 think about it. It was on cruise control. 25 But at that point, they suddenly -- they</p>	<p>1 Jeffrey Hasterok 2 A Right. 3 Q If I understand the rational 4 for that, it is that you and Mr. Curry had 5 concluded that the actual investment 6 history is the best choice for the 7 replacement yield to be used; is that 8 right? 9 A Yes. 10 Q Okay. And, again, to be clear, 11 the actual investment history for a 12 four-year period in your view is the best 13 choice? 14 MR. LAWRENCE: Four-month or 15 four-year? 16 Q I'm sorry. Four-month period 17 is the best choice for the replacement 18 yield over a 23-year period; is that right? 19 A Yes. 20 Q And just to be clear -- I think 21 we covered some of this in the morning -- 22 neither you nor Mr. Curry had ever used 23 that type of methodology during the course 24 of your work for Morgan Stanley, correct? 25 MR. LAWRENCE: Object to the</p>
Page 194	Page 196
<p>1 Jeffrey Hasterok 2 had to make the affirmative decision to 3 invest in something. 4 And then -- so we chose out to 5 March of '09, March 25th of '09, because 6 that was a logical date given that that's 7 the rejection date: 8 "So let's see what the numbers 9 look like from when they started to 10 reinvest to the rejection date." 11 Q Any other reasons why you used 12 that four-month period? 13 A No, that's -- it's commensurate 14 with their actual investment history up to 15 the -- up to and including the rejection 16 date. 17 Q All right. Now, on page 20 of 18 your report, you conclude that, off the 19 various numbers that appear on the grid, 20 that the termination amount should be 21 37.5 million, correct? 22 A Yes. 23 Q Okay. 24 A Plus total loss below that. 25 Q Plus total loss below that.</p>	<p>1 Jeffrey Hasterok 2 form. 3 A This is the first time we have 4 had to calculate an estimated termination 5 amount for a tobacco RFA from the point of 6 view of the client facing a dealer that is 7 in default. 8 Q I believe you told me this 9 morning -- but I want to confirm -- that, 10 if you were calculating the estimated 11 termination amount, not from the point of 12 view of the client, but from the point of 13 view of the dealer, you would use a 14 different methodology? 15 A Yes. 16 Q You would use a forward curve 17 methodology? 18 A Yes. 19 Q We talked this morning -- I 20 think it was -- about the Swap Financial 21 Group calculation and whether you had 22 reviewed it and whether you had any 23 criticisms of it. 24 Do you remember that 25 discussion?</p>

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Page 197	Page 199
<p>1 Jeffrey Hasterok</p> <p>2 A Yes.</p> <p>3 Q Now, one aspect of that Swap</p> <p>4 Financial Group calculation is the -- not</p> <p>5 the curve that Mr. Shapiro starts with, but</p> <p>6 the charges that he adds to adjust that</p> <p>7 curve.</p> <p>8 Do you remember that aspect of</p> <p>9 the calculation?</p> <p>10 A Yes. Swap Financial added and</p> <p>11 subtracted a bunch of different numbers to</p> <p>12 their base line swap number.</p> <p>13 Q Did you study that aspect of</p> <p>14 the calculation?</p> <p>15 A We did not.</p> <p>16 Q And do you have an opinion one</p> <p>17 way or the other as to whether the charges</p> <p>18 that were added or subtracted to the base</p> <p>19 LIBOR plus curve were appropriate?</p> <p>20 A We -- I don't at this time.</p> <p>21 Q Now, when you were at Morgan</p> <p>22 Stanley, you priced RFAs, correct?</p> <p>23 A Yes.</p> <p>24 Q And you priced them in the</p> <p>25 context of bidding for new business; is</p>	<p>1 Jeffrey Hasterok</p> <p>2 this.</p> <p>3 Q Okay. You can start with</p> <p>4 generalities and --</p> <p>5 A Yeah, I have to stick</p> <p>6 generally.</p> <p>7 So when entering into new</p> <p>8 transactions, you are going to start with</p> <p>9 the swap curve. You are going to apply</p> <p>10 some reserve for credit, and potentially</p> <p>11 funding, and potentially the cost benefit</p> <p>12 of delivering whatever securities they</p> <p>13 happen to be, in that -- that are</p> <p>14 deliverable into that account -- in this</p> <p>15 case, it was commercial paper and</p> <p>16 Treasuries HC -- so -- and some amount of</p> <p>17 profit that you would want to make.</p> <p>18 Q Do you recall, just rough</p> <p>19 orders of magnitude, what type of</p> <p>20 additional charges you would impose above</p> <p>21 the forward curve?</p> <p>22 MR. LAWRENCE: Object to the</p> <p>23 form.</p> <p>24 A I am worried about whether I</p> <p>25 can say. I am worried about if I can give</p>
Page 198	Page 200
<p>1 Jeffrey Hasterok</p> <p>2 that right?</p> <p>3 A Both bidding on new</p> <p>4 transactions and unwinding existing</p> <p>5 transactions.</p> <p>6 Q And, again, if I have</p> <p>7 understood your testimony before, at Morgan</p> <p>8 Stanley, you used a forward curve as a</p> <p>9 basis of a -- of such a calculation?</p> <p>10 A Yes.</p> <p>11 Q Right?</p> <p>12 A Yes.</p> <p>13 Q And you would add charges to</p> <p>14 that curve analysis, correct?</p> <p>15 A Yes.</p> <p>16 Q Okay. How would you determine</p> <p>17 when you were at Morgan Stanley what the</p> <p>18 appropriate charges should be?</p> <p>19 A Well, I have to -- let me</p> <p>20 say -- I have to be careful about what I</p> <p>21 say, because, as part of your compensation</p> <p>22 in leaving the firm, you have to sign a</p> <p>23 confidentiality agreement that you can't</p> <p>24 give away proprietary information; so I</p> <p>25 have to weigh it carefully on how I phrase</p>	<p>1 Jeffrey Hasterok</p> <p>2 you that kind of detail and whether that</p> <p>3 violates my agreements with Morgan Stanley.</p> <p>4 That's the only hesitation I have about</p> <p>5 giving you more direct numbers.</p> <p>6 Q Okay. Let me ask you another</p> <p>7 way.</p> <p>8 Do you ever recall adding over</p> <p>9 300 basis points in charges to a forward</p> <p>10 curve to calculate?</p> <p>11 A Well, you subtract in this</p> <p>12 case.</p> <p>13 Q Subtract 300 basis points?</p> <p>14 A No.</p> <p>15 Q And as someone who has</p> <p>16 practiced in the municipal derivatives</p> <p>17 space, municipal securities space, do you</p> <p>18 believe it's proper to simply use a bond</p> <p>19 spread to calculate the credit charge on an</p> <p>20 RFA?</p> <p>21 MR. LAWRENCE: Object to the</p> <p>22 form.</p> <p>23 A I haven't thought about it in</p> <p>24 relation to this type of structure. I</p> <p>25 would have to -- I would have to think</p>

50 (Pages 197 to 200)

Page 201	Page 203
<p>1 Jeffrey Hasterok 2 about it more. 3 Q Well, you have looked at the 4 Washington TSA reserve funding agreement, 5 right? 6 A Yes. 7 Q You are familiar with the 8 features of that agreement. You valued it, 9 correct? 10 A Yes. 11 Q So for a hypothetical dealer 12 facing the Washington TSA and thinking 13 about the credit risk of the Washington 14 TSA, how did you go about figuring out what 15 credit charges you would apply as a dealer, 16 a hypothetical dealer facing the Washington 17 TSA? 18 MR. LAWRENCE: You are talking 19 about more March 2009 or 2002 or -- 20 MR. TAMBE: Ever. 21 Q Methodology, just what is the 22 methodology? 23 MR. LAWRENCE: Object to the 24 form. 25 A We didn't come up with a credit</p>	<p>1 Jeffrey Hasterok 2 more fully in relation to this transaction. 3 Q Well, in deciding whether or 4 not to have a credit charge and how big a 5 credit charge to impose, would you look at 6 whether the dealer expected to be exposed 7 to Washington payment risk? 8 MR. LAWRENCE: You are still 9 asking a hypothetical without any time 10 frame? 11 MR. TAMBE: Yes, yes. 12 MR. LAWRENCE: Same objection. 13 A Could you repeat the question? 14 I'm sorry. Could you repeat it. 15 Q Sure. 16 If you can describe in your own 17 words, what is the credit risk that a 18 dealer faces when it's facing the 19 Washington TSA on a contract like the RFA? 20 A Okay. 21 MR. LAWRENCE: Same objection. 22 A Assuming a functioning market 23 and people are still doing the 24 transactions -- 25 Q Yep.</p>
Page 202	Page 204
<p>1 Jeffrey Hasterok 2 reserve or charge in facing Washington for 3 the purposes of this report. 4 MR. LAWRENCE: Okay. Somebody 5 asked. 6 Q I didn't ask you that. 7 MR. LAWRENCE: That's not what 8 he asked. 9 Q I didn't ask you that, right. 10 And I understand that you didn't come up 11 with a credit charge for the purposes of 12 your report. But if you were a 13 hypothetical dealer -- and you are familiar 14 with -- not just with what Morgan Stanley 15 did, but you are familiar with practices of 16 dealers in this industry, correct? 17 A Yes. 18 Q And if you were facing the 19 Washington TSA and you had these contract 20 terms that are in the Washington TSA 21 agreement, how would you go about assessing 22 what the credit charges should be? 23 MR. LAWRENCE: Object to the 24 form. 25 A I would have to think about it</p>	<p>1 Jeffrey Hasterok 2 A -- if TSA defaults at a point 3 in time when they owe the dealer money, 4 potentially, the dealer would not be able 5 to recover the entire termination amount 6 from the client, from the TSA. 7 Q And under what types of 8 scenarios, again, in this hypothetical, 9 would the TSA owe the dealer money? 10 MR. LAWRENCE: Same objection. 11 A Generally, in higher rate 12 environments. 13 Q So, generally, in an 14 environment where spot or future interest 15 rates were expected to be higher than the 16 fixed rate, the dealer could be in the 17 money on the transaction? 18 MR. LAWRENCE: Same objection. 19 Q Is that right? 20 A Sure. If TSA is receiving a 21 very low rate in relation to the then 22 current market rate, receiving 2 percent, 23 the current rates are 10, at that point, it 24 is likely that the dealer would be in the 25 money.</p>

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<p>1 Jeffrey Hasterok</p> <p>2 Q Okay. And in that scenario, if</p> <p>3 the TSA were to default, the dealer would</p> <p>4 face exposure, the credit risk of the TSA,</p> <p>5 correct?</p> <p>6 A Yes.</p> <p>7 Q However, if the TSA were</p> <p>8 earning a relatively high rate of interest</p> <p>9 compared to prevailing market interest</p> <p>10 rates, that credit risk would be lower,</p> <p>11 correct?</p> <p>12 MR. LAWRENCE: Same objection.</p> <p>13 A Generally speaking, yes.</p> <p>14 Q And it may even be non-existent</p> <p>15 if the interest rate being paid to the TSA</p> <p>16 was much higher than prevailing interest</p> <p>17 rates?</p> <p>18 MR. LAWRENCE: Same objection.</p> <p>19 A The higher they pay, the higher</p> <p>20 the rate that the TSA is paying, all else</p> <p>21 equal, the more likely it is that they will</p> <p>22 be in the money.</p> <p>23 Q And, therefore, if they are in</p> <p>24 the money, if they, the TSA, are in the</p> <p>25 money, the dealer is not exposed to credit</p>	<p>1 Jeffrey Hasterok</p> <p>2 Q Have you seen this document</p> <p>3 before, sir?</p> <p>4 A No.</p> <p>5 Q And if you look at the body of</p> <p>6 the document, you will see "Tobacco</p> <p>7 Settlement Financing Corporation."</p> <p>8 Do you see that?</p> <p>9 A Yes.</p> <p>10 Q And you will see claimed --</p> <p>11 claimed unsecured amount of 135 million?</p> <p>12 A Okay.</p> <p>13 Q And then you see the allowed</p> <p>14 unsecured, 37.2 million?</p> <p>15 A Okay.</p> <p>16 Q Do you see that?</p> <p>17 A Yes.</p> <p>18 Q Do you recognize these as the</p> <p>19 claimed and allowed amounts relating to the</p> <p>20 New York State claim?</p> <p>21 A We -- well, I never saw the</p> <p>22 final numbers that were filed. We simply</p> <p>23 submitted the report, and I don't know what</p> <p>24 K&L Gates and New York did with that. So</p> <p>25 this is the first -- I have never seen this</p>
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<p>1 Jeffrey Hasterok</p> <p>2 risk?</p> <p>3 A I wouldn't want to say it is</p> <p>4 not exposed. It is less exposed.</p> <p>5 Q Okay. So we had spoken earlier</p> <p>6 about some -- about some research that you</p> <p>7 had done going on to the public records</p> <p>8 from the Lehman bankruptcy.</p> <p>9 I have placed before you a</p> <p>10 document marked Lehman Exhibit 35.</p> <p>11 (Exhibit No. Lehman 35,</p> <p>12 Printout from a computer screen of</p> <p>13 Epic Systems, is marked by the</p> <p>14 reporter for identification.)</p> <p>15 Q And you will see it's a</p> <p>16 printout from a computer screen of</p> <p>17 something called Epic Systems.</p> <p>18 Do you see that?</p> <p>19 A Yes.</p> <p>20 Q And you will see a reference on</p> <p>21 the right-hand side, "Lehman Brothers</p> <p>22 Holdings, Inc.," within parens,</p> <p>23 "Chapter 11."</p> <p>24 Do you see that?</p> <p>25 A Yes.</p>	<p>1 Jeffrey Hasterok</p> <p>2 before.</p> <p>3 Q Okay. I am handing you, sir,</p> <p>4 what is previously marked as Lehman</p> <p>5 Exhibit 8.</p> <p>6 (Previously Marked Exhibit No.</p> <p>7 Lehman 8, PFM Termination Analysis is</p> <p>8 introduced into the proceedings.)</p> <p>9 Q Lehman Exhibit 8.</p> <p>10 A Okay.</p> <p>11 Q It's a couple of pages. If you</p> <p>12 could take a moment to review it and let me</p> <p>13 know when you are done.</p> <p>14 A Okay. Termination analysis.</p> <p>15 So -- okay. So this is PFM sending an</p> <p>16 E-Mail to -- it looks like the folks at</p> <p>17 Washington TSA. Okay. So this is -- all</p> <p>18 right -- November -- so that's, what, a</p> <p>19 month or two months after filing the</p> <p>20 bankruptcy.</p> <p>21 MR. LAWRENCE: Is there a</p> <p>22 question pending?</p> <p>23 MR. TAMBE: Yes. Is he</p> <p>24 familiar with it?</p> <p>25 A So I am reading this --</p>

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<p>1 Jeffrey Hasterok</p> <p>2 MR. LAWRENCE: Yes, but answer</p> <p>3 the question. What is the question?</p> <p>4 Q Take a moment to review it and</p> <p>5 let me know when you are done, question</p> <p>6 mark.</p> <p>7 A Okay.</p> <p>8 MR. LAWRENCE: Wait for a</p> <p>9 question.</p> <p>10 A I am reading.</p> <p>11 MR. LAWRENCE: No, wait for a</p> <p>12 question. If he wants to ask you a</p> <p>13 question, he will ask you a question.</p> <p>14 THE WITNESS: Okay.</p> <p>15 Q So you are done reading it?</p> <p>16 You are done reading it?</p> <p>17 A A cursory read, yes.</p> <p>18 Q The first question is:</p> <p>19 Have you seen this document</p> <p>20 before today?</p> <p>21 A No. I don't recall ever seeing</p> <p>22 this.</p> <p>23 Q Now, you see the page one of</p> <p>24 this document, Lehman eight?</p> <p>25 MR. LAWRENCE: Page one of the</p>	<p>1 Jeffrey Hasterok</p> <p>2 A Assuming this has not been</p> <p>3 modified, November of '08.</p> <p>4 Q And you have no reason to</p> <p>5 believe it has been modified?</p> <p>6 A I have never seen it. I don't</p> <p>7 know anything about it, but, sure.</p> <p>8 Q In the middle of page one in</p> <p>9 the E-Mail chain, there is an E-Mail from</p> <p>10 someone called Roan, R-o-a-n, to Kim.</p> <p>11 A Okay.</p> <p>12 Q And it reads:</p> <p>13 "Good morning, Kim. Attached</p> <p>14 is the valuation claim that was forwarded</p> <p>15 back to Bob. The termination value is" --</p> <p>16 in my words approximately 1.2 million, and</p> <p>17 then the E-Mail goes on to say -- "owed to</p> <p>18 Washington TSA."</p> <p>19 Do you see that?</p> <p>20 A Yes.</p> <p>21 Q Did you do any calculations of</p> <p>22 the value of the Washington RFA in</p> <p>23 September or October or November of 2008?</p> <p>24 A No.</p> <p>25 Q And when you turn to the</p>
Page 210	Page 212
<p>1 Jeffrey Hasterok</p> <p>2 document.</p> <p>3 A Okay.</p> <p>4 Q It has a label at the bottom,</p> <p>5 TSA 024147; do you see that?</p> <p>6 A Yes.</p> <p>7 Q All right. And any reason --</p> <p>8 do you have any reason to believe that this</p> <p>9 document is not in the Viewpoint database</p> <p>10 that was made available to you?</p> <p>11 A I don't know.</p> <p>12 Q Okay. And having done a</p> <p>13 cursory review of this document, do you</p> <p>14 understand what it purports to show?</p> <p>15 MR. LAWRENCE: Object to the</p> <p>16 form of the question.</p> <p>17 A It's an E-Mail from PFM to the</p> <p>18 client giving an estimated termination</p> <p>19 value.</p> <p>20 Q Okay. And this is an E-Mail</p> <p>21 and an attachment, looks like from the</p> <p>22 November 2008 time period, correct?</p> <p>23 MR. LAWRENCE: Object to the</p> <p>24 form of the question.</p> <p>25 Q Do you see that?</p>	<p>1 Jeffrey Hasterok</p> <p>2 calculation on -- just page two of this</p> <p>3 exhibit, the spreadsheet, can you tell,</p> <p>4 sitting here, what that calculation</p> <p>5 purports to do?</p> <p>6 MR. LAWRENCE: Object to the</p> <p>7 form of the question.</p> <p>8 A I would have to look at it more</p> <p>9 closely.</p> <p>10 Q And you have no opinion as to</p> <p>11 whether that's a proper way or improper way</p> <p>12 of doing the calculation, correct?</p> <p>13 MR. LAWRENCE: Object to the</p> <p>14 form.</p> <p>15 A I would hate to hypothesize</p> <p>16 with this kind of cursory review.</p> <p>17 Q Right, so no opinion?</p> <p>18 A No opinion.</p> <p>19 (Exhibit No. Lehman 36,</p> <p>20 Document from Swap Financial Group</p> <p>21 providing advice to TSA about how to</p> <p>22 invest balance of reserve funds, is</p> <p>23 marked by the reporter for</p> <p>24 identification.)</p> <p>25 Q I hand you a document, sir,</p>

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<p>1 Jeffrey Hasterok</p> <p>2 marked Lehman Exhibit 36. Take a moment to</p> <p>3 flip through the pages. When you have</p> <p>4 completed a cursory review of the document,</p> <p>5 tell me when you are done, and I will ask</p> <p>6 you some questions about it.</p> <p>7 A This document I remember</p> <p>8 seeing. We actually referred to it in our</p> <p>9 report on page 27. It's in the appendix.</p> <p>10 Q So you have seen this document</p> <p>11 before?</p> <p>12 A On matching the TSA Bates</p> <p>13 numbers, they line up.</p> <p>14 Q And not only do you remember</p> <p>15 the document, it's one of the ones that you</p> <p>16 specifically cite in your expert report,</p> <p>17 correct?</p> <p>18 A Yes.</p> <p>19 Q And you have an understanding</p> <p>20 of what this document purports to do,</p> <p>21 correct?</p> <p>22 A Yes.</p> <p>23 Q Do you -- what is your</p> <p>24 understanding of what this document</p> <p>25 purports to do?</p>	<p>1 Jeffrey Hasterok</p> <p>2 similar is Swap Financial in C on</p> <p>3 page three talks about doing a fixed</p> <p>4 receiver swap, which is in the same range</p> <p>5 of our -- the final scenario we do in the</p> <p>6 matrix where we talk about investing in</p> <p>7 some floating rate security or money market</p> <p>8 fund or the like and receiving in a</p> <p>9 cancellable swap.</p> <p>10 So they are both "swap plus an</p> <p>11 investment" scenarios. I think this swap</p> <p>12 structure doesn't talk about cancellation</p> <p>13 options in this paragraph. But -- but</p> <p>14 beyond that, we didn't go to this -- this</p> <p>15 detail of a strategy.</p> <p>16 Q Do you have any reason to</p> <p>17 believe, when you reviewed this document,</p> <p>18 that the Washington TSA could not have</p> <p>19 entered into this recommended strategy by</p> <p>20 Swap Financial Group in 2011?</p> <p>21 A I don't know what they could</p> <p>22 have done.</p> <p>23 Q Okay. You will see that the</p> <p>24 option that we were just talking about,</p> <p>25 paragraph C on page three of Exhibit 36,</p>
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<p>1 Jeffrey Hasterok</p> <p>2 A Well, I would be hypothesizing</p> <p>3 what Swap Financial Group is trying to do.</p> <p>4 But it appears that they are trying to give</p> <p>5 advice to TSA about what to do with the</p> <p>6 invested -- now, the balance of the reserve</p> <p>7 funds:</p> <p>8 "What are we going to do with</p> <p>9 this money?"</p> <p>10 Q Okay. If you look on</p> <p>11 page three of the document Exhibit 36 --</p> <p>12 A Got it.</p> <p>13 Q -- following a discussion there</p> <p>14 is a line that appear there which states:</p> <p>15 "Combined, we would anticipate</p> <p>16 an average yield of approximately</p> <p>17 2.6 percent."</p> <p>18 Do you see that?</p> <p>19 A I do.</p> <p>20 Q Now, did you do any analysis</p> <p>21 when you were reviewing replacement yield</p> <p>22 scenarios that looked at options for</p> <p>23 Washington TSA similar to the options being</p> <p>24 proposed by Swap Financial Group?</p> <p>25 A The only thing that is somewhat</p>	<p>1 Jeffrey Hasterok</p> <p>2 Mr. Shapiro indicates tranche three has an</p> <p>3 indicated leveled of 3.5 percent or 350</p> <p>4 basis points as of November 16, 2011.</p> <p>5 Do you see that?</p> <p>6 A Yes.</p> <p>7 Q That's obviously far higher</p> <p>8 than your projected replacement yield for</p> <p>9 the cancellable swap in your grid, correct?</p> <p>10 A Yes.</p> <p>11 Q In fact, in your grid, you come</p> <p>12 up with a valuation of 43 basis points,</p> <p>13 right?</p> <p>14 A Yes.</p> <p>15 Q So Mr. Shapiro, in November of</p> <p>16 2011 has a rate that is nine times your</p> <p>17 rate?</p> <p>18 A Yes.</p> <p>19 Q Okay. Now, the very analysis</p> <p>20 Mr. Shapiro did in November 2011 could also</p> <p>21 have been done in March of 2009, correct?</p> <p>22 A Probably.</p> <p>23 MR. LAWRENCE: Object to the</p> <p>24 form.</p> <p>25 Q Probably?</p>

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<p>1 Jeffrey Hasterok</p> <p>2 A Sure, you can -- you can price</p> <p>3 out hypotheticals all you want.</p> <p>4 Q And, well, these aren't just</p> <p>5 hypotheticals, right? This is Mr. Shapiro</p> <p>6 giving a recommendation as to what he</p> <p>7 believed Washington TSA was permitted to</p> <p>8 invest in and could invest in.</p> <p>9 He wasn't saying, "This is a</p> <p>10 hypothetical."</p> <p>11 He said this is something you</p> <p>12 can do, correct?</p> <p>13 MR. LAWRENCE: Object to the</p> <p>14 form.</p> <p>15 A I still view it as a</p> <p>16 hypothetical. Until the trade is done,</p> <p>17 it's a hypothetical.</p> <p>18 Q All right. But he's not</p> <p>19 suggesting trades that couldn't be done;</p> <p>20 he's making recommendations here of what</p> <p>21 could be done, correct?</p> <p>22 MR. LAWRENCE: Objection to the</p> <p>23 form of the question.</p> <p>24 A I don't know that to be true.</p> <p>25 Q But you read this document?</p>	<p>1 Jeffrey Hasterok</p> <p>2 those proposals, correct?</p> <p>3 A The ones we could find, yes, we</p> <p>4 would have referred to the individual</p> <p>5 E-Mails or memos, so, yes.</p> <p>6 Q And all of those proposals set</p> <p>7 forth replacement yields far in excess of</p> <p>8 the yield that you actually use in your</p> <p>9 report, correct?</p> <p>10 MR. LAWRENCE: Object to the</p> <p>11 form.</p> <p>12 A That appears to be true.</p> <p>13 Q Did you -- did you speak with</p> <p>14 Swap Financial Group about this</p> <p>15 recommendation?</p> <p>16 A We did not.</p> <p>17 Q Did you speak with Barclay's</p> <p>18 about their recommendation?</p> <p>19 A We did not.</p> <p>20 Q Did you try and recreate any of</p> <p>21 these recommendations?</p> <p>22 A We did not.</p> <p>23 Q And did you check to see if</p> <p>24 these recommendations were also feasible to</p> <p>25 transact in March of 2009?</p>
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<p>1 Jeffrey Hasterok</p> <p>2 A I did.</p> <p>3 MR. LAWRENCE: Do you have a</p> <p>4 question, or you want to argue with</p> <p>5 the witness?</p> <p>6 MR. TAMBE: I am asking</p> <p>7 questions, and he's answering. You</p> <p>8 are the one obstructing. Make an</p> <p>9 objection to the form. Let's move on.</p> <p>10 Q And Swap Financial Group was</p> <p>11 not the only advisor that was making</p> <p>12 reinvestment recommendations to the</p> <p>13 Washington TSA in this period of time,</p> <p>14 correct?</p> <p>15 A That seems correct, per our</p> <p>16 report.</p> <p>17 Q All right. And so there were</p> <p>18 others, and your report talks about</p> <p>19 Barclay's Capital making a similar</p> <p>20 proposal, correct?</p> <p>21 A Correct.</p> <p>22 Q And there were others, correct?</p> <p>23 A Yes, Grant Street, Swap</p> <p>24 Financial, Barclay's.</p> <p>25 Q And you have reviewed all of</p>	<p>1 Jeffrey Hasterok</p> <p>2 MR. LAWRENCE: Object to the</p> <p>3 form.</p> <p>4 A We did not.</p> <p>5 Q And as you sit here, you have</p> <p>6 no basis to say that Washington State TSA</p> <p>7 could not -- was forbidden from entering</p> <p>8 into these types of transactions, right?</p> <p>9 MR. LAWRENCE: Object to the</p> <p>10 form.</p> <p>11 A I don't know precisely what</p> <p>12 limitations that were in place at the time</p> <p>13 would have precluded them from doing it.</p> <p>14 That would have required a lot more work.</p> <p>15 Q Okay. On the spreadsheet that</p> <p>16 we were looking at -- what's the exhibit</p> <p>17 number -- Lehman 34 -- and it's up on the</p> <p>18 screen still. If we could just go to the</p> <p>19 tab, the Fannie Mae/Freddie Mac tab -- all</p> <p>20 right. All right.</p> <p>21 Again, you have data on this</p> <p>22 tab, this worksheet, the Fannie/Freddie</p> <p>23 worksheet in the spreadsheet that starts in</p> <p>24 October of 2002 and goes forward until</p> <p>25 2013, correct?</p>

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<p>1 Jeffrey Hasterok</p> <p>2 A Yes.</p> <p>3 Q And you could do the same type</p> <p>4 of average analysis that we did previously</p> <p>5 with the T bills and the CP, correct?</p> <p>6 A Yes.</p> <p>7 Q So instead of doing a</p> <p>8 four-month or four-year average, we could</p> <p>9 do a seven-year average, right?</p> <p>10 A Yes.</p> <p>11 Q You didn't do that?</p> <p>12 A Not for the purposes of the</p> <p>13 report.</p> <p>14 Q Well, did you do it for any</p> <p>15 purpose?</p> <p>16 A No.</p> <p>17 Q It's not like you ran the</p> <p>18 seven-year analysis and decided not to use</p> <p>19 it, correct?</p> <p>20 A You can look -- I mean --</p> <p>21 MR. LAWRENCE: Listen to the</p> <p>22 question.</p> <p>23 A I don't recall. I don't</p> <p>24 recall. I don't recall. I don't recall</p> <p>25 whether I typed the formula in the cell or</p>	<p>1 Jeffrey Hasterok</p> <p>2 Document, PDF from the Fannie Mae web</p> <p>3 site with historical auction results,</p> <p>4 is marked by the reporter for</p> <p>5 identification.)</p> <p>6 Q Do you recognize that document?</p> <p>7 A Yes, this should -- this was</p> <p>8 probably a PDF, if I recall, from the</p> <p>9 Fannie Mae web site with the historical</p> <p>10 auction results.</p> <p>11 Q And was this document the</p> <p>12 source of the data that appears in your</p> <p>13 spreadsheet on the Fannie Freddie tab?</p> <p>14 A Yes, I believe so.</p> <p>15 Q Now, you will see that this</p> <p>16 document, Exhibit 37, has data that goes</p> <p>17 back to January of '99; do you see that?</p> <p>18 A Yes.</p> <p>19 Q Is that the earliest reported</p> <p>20 data for these securities, sir?</p> <p>21 A I don't know.</p> <p>22 Q Okay. In -- and this data,</p> <p>23 Exhibit 37, you said was a PDF?</p> <p>24 A I think so.</p> <p>25 Q And was it a PDF that you had</p>
Page 222	Page 224
<p>1 Jeffrey Hasterok</p> <p>2 not.</p> <p>3 Q It's not a question of whether</p> <p>4 you typed the formula in the cell or not.</p> <p>5 It's a matter -- it goes to methodology,</p> <p>6 right?</p> <p>7 A Sure.</p> <p>8 Q You had the data available; you</p> <p>9 had collected the data going back to</p> <p>10 October of 2002.</p> <p>11 Did you, as part of coming up</p> <p>12 with your expert report, run an average for</p> <p>13 the time period beginning with October of</p> <p>14 2002?</p> <p>15 A I don't recall.</p> <p>16 Q And you would agree with me</p> <p>17 that that average can be calculated on your</p> <p>18 spreadsheet, correct?</p> <p>19 A Yes.</p> <p>20 Q Just the way we did for the</p> <p>21 other numbers?</p> <p>22 A Yes.</p> <p>23 Q I am handling you what has been</p> <p>24 marked as Lehman Exhibit 37.</p> <p>25 (Exhibit No. Lehman 37,</p>	<p>1 Jeffrey Hasterok</p> <p>2 created by pulling data off of the</p> <p>3 Fannie/Freddie web site?</p> <p>4 MR. LAWRENCE: I'm sorry. You</p> <p>5 are asking whether this was something</p> <p>6 he created --</p> <p>7 MR. TAMBE: Yes.</p> <p>8 MR. LAWRENCE: -- or something</p> <p>9 he took that could be taken off.</p> <p>10 MR. TAMBE: No. Is that -- is</p> <p>11 that -- he said it was a PDF.</p> <p>12 A Yeah, but if -- the last page</p> <p>13 of the appendix, page 28, in the report,</p> <p>14 the link itself is a PDF.</p> <p>15 Q Okay. So if you were to go to</p> <p>16 that Fannie Mae web site that is shown on</p> <p>17 page 28, the only data you would find on</p> <p>18 that page is this January '99 through</p> <p>19 November 2013 data; is that right?</p> <p>20 A You click on the PDF, and you</p> <p>21 get something substantially similar to</p> <p>22 this.</p> <p>23 Q Okay. Is there data available</p> <p>24 on that web site for other agency</p> <p>25 securities that goes back even earlier to</p>

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<p>1 Jeffrey Hasterok 2 January '99? 3 A I don't know. 4 Q What was your methodology in 5 taking these particular agency securities 6 to look at as opposed to other agency 7 securities? 8 A Fannie Mae and Freddie Mac 9 discount notes are eligible investments or 10 qualified investments -- I forget the exact 11 phrasing -- but it -- they are, to my 12 belief, eligible both under the RFA for 13 them to have been purchasing. 14 Lehman theoretically could have 15 sold them agencies if they so chose. And I 16 believe, under their indenture, they can go 17 out and buy them. 18 To my memory and recollection, 19 Fannie and Freddie have the biggest pool of 20 outstanding securities similar to this. 21 There probably are smaller pools of agency 22 securities similar to this, similar to the 23 discount notes, but these are the most -- 24 most liquid, largest volumes outstanding to 25 my knowledge.</p>	<p>1 Jeffrey Hasterok 2 MR. LAWRENCE: No. 3 MR. TAMBE: Just one point for 4 the record, we had earlier marked a 5 fairly substantial spreadsheet 6 printout as Lehman Exhibit 34. I 7 think the parties are in agreement 8 that, just for the sake of 9 record-keeping, only the first page of 10 that spreadsheet will be marked, will 11 be included with the transcript as the 12 exhibit. 13 At the appropriate time in the 14 litigation, we will substitute that 15 with the electronic file for that 16 spreadsheet. And that will be the 17 exhibit for purposes of the trial. 18 MR. LAWRENCE: That is correct. 19 MR. TAMBE: Thank you. 20 (Deposition adjourned, 3:56.) 21 22 23 24 25</p>
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<p>1 Jeffrey Hasterok 2 Q Just one feature of your last 3 answer, you said that they were -- that 4 Lehman theoretically could have sold them 5 agencies. That was Lehman's choice under 6 the RFA, correct? 7 A Exactly. 8 Q And a dealer facing the 9 Washington TSA under the contract like the 10 RFA would have the option of delivering the 11 cheapest-to-deliver security, correct? 12 A Yes. 13 Q And so long as it's an eligible 14 security, the Washington TSA has to accept 15 it, correct? 16 A Yes. 17 MR. TAMBE: Let's take a short 18 break. We may be close to being done. 19 (There was a discussion off the 20 record.) 21 (A break is taken.) 22 MR. TAMBE: All right. We have 23 no further questions for the witness. 24 I don't know if you have any 25 questions?</p>	<p>1 2 J U R A T 3 4 I DO HEREBY CERTIFY that I have 5 read the foregoing transcript of my 6 deposition testimony. 7 8 9 10 11 SWORN TO AND SUBSCRIBED 12 BEFORE ME THIS 13 DAY OF 2014 14 ----- 15 16 17 18 19 20 21 22 23 24 25</p>

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<p style="text-align: right;">Page 229</p> <p>1 2 I N D E X 3 4 5 WITNESS DIRECT CROSS 6 7 8 9 JEFFREY HASTEROK 10 11 12 13 14 BY MR. TAMBE 3 15 16 17 18 19 20 21 22 23 24 25</p>	<p style="text-align: right;">Page 231</p> <p>1 2 CERTIFICATE 3 4 I, TAB PREWETT, A Registered Professional Reporter, Notary Public, 5 Certified LiveNote Reporter, and Certified Shorthand Reporter, do hereby certify that 6 prior to the commencement of the examination JEFFREY HASTEROK was sworn by 7 the notary public to testify the truth, the whole truth and nothing but the truth. 8 9 10 I DO FURTHER CERTIFY that the foregoing is a true and accurate transcript 11 of the testimony as taken stenographically by and before me at the time, place and on the date hereinbefore set forth. 12 13 14 I DO FURTHER CERTIFY that I am neither a relative nor employee nor attorney nor counsel of any of the parties 15 to this action, and that I am neither a relative nor employee of such attorney or 16 counsel, and that I am not financially interested in the action. 17 18 19 20 21 Notary Public 22 23 My Commission expires February 9, 2014 Dated: January 19, 2014 24 25</p>
<p style="text-align: right;">Page 230</p> <p>1 2 E X H I B I T S 3 4 NUMBER DESCRIPTION PAGE 5 6 Exhibit No. Lehman 30, 12/16/13 52 Expert Valuation Report 7 8 Exhibit No. Lehman 31, Pacifica 54 and Expert Engagement Letter 9 Exhibit No. Lehman 32, Valuation 64 Claim Document filed by TSA 10 11 Exhibit No. Lehman 33, Printout 131 of Web Page, Peter Orr Article 12 Exhibit No. Lehman 34, Document, 148 Bates No. TSA-042447, Front Page 13 of 129-page Printout of Spreadsheet 14 15 Exhibit No. Lehman 35, Printout 206 from a computer screen of Epic Systems 16 17 Previously Marked Exhibit No. 208 Lehman 8, PFM Termination Analysis 18 19 Exhibit No. Lehman 36, Document 212 from Swap Financial Group providing advice to TSA about how 20 to invest balance of reserve funds 21 22 Exhibit No. Lehman 37, Document, 222 PDF from the Fannie Mae web site with historical auction results 23 24 25</p>	

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